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Mexico's rulers
No longer behaving like Don Corleone
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World Business Newspaper http://www.FT.com TUESDAY FEBRUARY 18 1997

Rumours sweep Beijing over state of Deng's health

Beijing was awash with rumours over the health of Deng Xiaoping, China's 92-year-old paramount leader, which is believed to have deteriorated sharply in recent weeks. President Jiang Zemin and premier *Li Peng cut* short provincial tours to return to the capital. One Chinese official said: "There are doubts whether he will live beyond the end of February." Page 20

Disgraced copper trader admits fraud

Yasuo Hamanaka, (left), Sumitomo's former star copper trader, has pleaded guilty in Tokyo to fraud and forgery involving $2.6bn. The charges stem from an illicit metal dealing loss which became Japan's biggest corporate scandal. The issue of why Mr Hamanaka tried to corner the market and for whose benefit is being probed by US and UK regulators. Page 20

Congress threat to telecom deal: The agreement to liberalise world telecommunications may face obstacles in the US Congress, a senior US trade official said. Page 4; A ringing endorsement, Page 19

'Shock' treatment: Romanian prime minister Victor Ciorbea has announced an economic "shock therapy" plan to slash the budget deficit, open up the foreign exchange markets, rein in inflation and speed up privatisation. Page 20; Back in from the cold, Page 18; Lex, Page 20

Companies guilty over deaths: Two Swedish engineering companies and the operators of the port of Ramsgate in south-east England were found guilty of failing to ensure the safety of passengers after an accident in which six people were killed when a walkway collapsed. Page 11

The UK's relations with its European partners may be soured again by a debate on the handling of BSE or "mad cow" disease in which Britain could face demands to repay funds spent on the crisis. Page 2

Defector stand-off could last months: The diplomatic stand-off over the defection of top North Korean official Hwang Jang-yop could last for months, a western official said. Mr Hwang is in the South Korean consular office in Beijing after seeking asylum. Page 8

Bre-X Minerals, the Calgary-based exploration company, raised its estimate of Indonesia's immense Busang gold deposit by another 25 per cent as it cemented a deal to build a $1.6bn mine. Page 21; Lex, Page 20

Fear over Nato: Countries bordering Russia such as Ukraine, Georgia and the Baltic states want agreements on closer ties with the US and Nato over fears that Nato expansion would leave them vulnerable to retaliatory pressure from Russia. Page 3; Bonn seeks to calm Russian fears, Page 3; Editorial Comment, Page 19

European commissioner for foreign affairs Hans van den Broek has warned of "paralysis" in European Union foreign policy and proposed a system of majority voting to create a common stance. Page 4

Brokers in Brazil tax warning: A new tax on financial transactions in Brazil could increase the flow of foreign funds away from the country's markets, brokers say. Page 22.

Investment boost on Andorra poll: The tiny mountain state of Andorra between France and Spain is likely to be opened to more foreign investment after the re-election of the ruling party. Page 4

Russia's anti-monopoly committee chief Leonid Bochin has been sacked, raising questions about the government's commitment to structural reforms said to be vital for economic growth. Page 3

Canada lifts bank restrictions: The Canadian government is finally easing restrictions on foreign banks, allowing them to open directly-owned branches. Page 22.

War of words on immigration bill: French prime minister Alain Juppé has told intellectuals they are playing into the hands of the far right by preaching civil disobedience to a controversial new immigration bill. Page 4

Russians 'dying younger': Russian men are dying younger since the Soviet Union's collapse, according to the World Health Organisation, which blames heart disease and other illnesses often linked to stress, as well as excessive drinking and smoking. Page 6

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STOCK MARKET INDICES		
FTSE 100:	4,337.8	(-3.2)
Yield	3.60	
FTSE Eurotrack 100	2,165.29	(+6.62)
FTSE All-Share	2,113.17	(-0.0%)
Nikkei	18,750.65	(+26.65)

LONDON MONEY		
3-mo Interbank	$6\frac{1}{16}$%	(same)
Liffe long gilt future:	Mar113¼	(Mr113⅜)

NORTH SEA OIL (Argus)		
Brent Dated	$20.51	(20.525)

GOLD		
London	$344.25	(345.85)

STERLING		
London:		
$	1.6168	(1.6210)
DM	2.7476	(2.7334)
FFr	9.271	(9.2235)
SFr	2.3936	(2.3708)
Y	201.188	201.328)
£ Index	98.0	(97.7)
Tokyo $ close Y 124.26		

The New York markets were closed yesterday

Bonn braced for spending curb to meet Emu target

By Lionel Barber in Brussels

Germany is ready to adopt emergency measures, including a spending freeze, to meet this year's budget deficit target for European economic and monetary union, Mr Jürgen Stark, deputy finance minister, said yesterday.

Speaking at a meeting of European Union finance ministers in Brussels, Mr Stark warned that extra spending controls might be needed to offset a shortfall in tax revenues caused by record unemployment. The jobless figure last month rose to nearly 4.7m, the highest since the 1930s.

The EU finance ministers delivered a generally confident message about Europe's economic recovery, bolstered by the lowest long-term interest rates in more than 30 years and a stronger dollar, which is helping European exporters.

But Mr Kenneth Clarke, UK chief finance minister, said Europe's failure to tackle its unemployment crisis cast a shadow over the plan to launch monetary union on January 1, 1999. By contrast, Britain was "obviously the most successful economy in western Europe at the moment in creating jobs and reducing unemployment". Diplomats said a jovial Mr Clarke appeared to relish the chance to needle Mr Stark, who has often lectured fellow finance ministers on the need to follow German fiscal rectitude. The German minister reacted immediately.

He said Bonn was ready to take emergency measures to meet its 2.9 per cent deficit-to-GDP target in 1997, just below the target of 3 per cent set by the Maastricht treaty, which outlines the criteria for entry into a single currency. "The 2.9 per cent is a carefully calculated figure in which we have already considered all recognisable risks. If we have further shortfalls in tax revenues, we will take further corrective measures," he added.

The focus of yesterday's discussions was the European Commission's annual economic report which predicted growth of 2.3 per cent in 1997 and 2.8 per cent in 1998 as the average for the EU.

Mr Alexandre Lamfalussy, president of the European Monetary Institute, forerunner of the European Central Bank, supported arguments that the European economic recovery was picking up pace. He

Continued on Page 20
EU struggles, Page 2

Sharif offers hopes of peace with India

Nawaz Sharif, surrounded by well-wishers, took a conciliatory line towards India in his maiden speech after being sworn in yesterday as Pakistani prime minister in Islamabad.

He called for peace talks between the two countries to be revived. "We will take one step forward, and I am sure India will do the same; then we can sit down to settle our issues." Mr Sharif's electoral victory this month has raised expectations that the two sides may soon resume peace talks disrupted in 1994. The two countries have fought each other three times since partition in 1947. Report, Page 6; Editorial Comment, Page 19

Picture: AP

VW, GM respond cautiously to bribery allegations

By Sarah Althaus in Frankfurt, Haig Simonian in London and Richard Tomkins in New York

Volkswagen and General Motors, two of the world's biggest car companies, responded cautiously yesterday to allegations that members of their purchasing staffs had extorted bribes over a period of years from suppliers seeking lucrative contracts.

The allegations, in Der Spiegel, the German news magazine, followed an admission by VW last month that it had suspended a manager in its purchasing division after an internal investigation.

The investigation came after VW received information from ABB, the Swiss-Swedish engineering group. The information, believed to concern alleged attempts by purchasing managers to demand kickbacks for contracts, was also passed to Zurich prosecutors.

The issue arose in conjunction with a dispute between ABB and VW over the costs of a new paint plant for Skoda, the German company's subsidiary in the Czech Republic.

VW yesterday announced it had asked German prosecutors to investigate bribery allegations surrounding the construction of the plant.

However, the company declined to comment on Der Spiegel's allegation that the paint plant was just one example of an established system of kickbacks between many leading car companies and their suppliers.

Der Spiegel said the affair was being investigated by the US Justice Department and involved executives who had worked with Mr José Ignacio López, VW's former head of purchasing and production. Mr López moved from GM to VW with several key staff in 1993.

According to the magazine, the alleged network of bribes also took place at General Motors and its Opel subsidiary in Germany.

Last night GM said: "GM and Opel are doing exactly as you would expect any responsible

Continued on Page 20

New highs for overseas sterling bond issues

By Edward Luce in London

The volume of bond issues in sterling by overseas issuers hit record levels in the first six weeks of this year.

Borrowers took advantage of sterling's appreciation against other European currencies and investors jumped at comparatively high yields on sterling bonds.

Just over £9bn ($14.6bn) of international bonds have been issued in sterling in 1997 – well over half the amount issued in 1995 as a whole and just under a third the level issued in 1996.

Among those to have launched issues this year are Nestlé, Unilever Siemens and Daimler-Benz.

Sterling has appreciated by 16 per cent on a trade-weighted basis since August. Mr Nicholas Medd, syndicate manager at HSBC Markets in London, said the increase has made it "very attractive for overseas retail investors to buy sterling-denominated debt".

For investors, the high rates of interest paid on UK gilts (government bonds) compared with rates on other European government bonds have proved a strong attraction. The return paid on bonds issued in sterling is about 1.7 percentage points above equivalent German government bonds.

"Gilts are now one of the highest-yielding government bonds in Europe," said Mr Philip Shaw, chief European economist at Union Discount in London. "Even if sterling stopped appreciating, the spread of gilts over German bunds would still be a strong plus factor."

Syndicate managers in London also say the popularity of sterling among overseas borrowers stems partly from its growing status as a "safe haven" currency for investors wanting to steer clear of currencies likely to enter the European monetary union.

The appeal of sterling has coincided with a corresponding decline of interest in the D-Mark as an issue-currency for borrowers. While bond issues in eurosterling more than doubled to £7.8bn in January 1997 from January last year, issues in D-Marks fell by half to DM19.693bn ($11.6bn) in the same period.

"The decline in popularity of D-Marks exactly mirrors the reasons why investors are choosing sterling debt instead at the moment," said one syndicate official in London.

The issue last week of the first global bond to be denominated in sterling has also boosted interest in the sterling debt market. The £1bn debut sterling global bond by Fannie Mae – the US Federal National Mortgage Association – is expected to be followed by similar offerings.

International bonds, Page 30
Currencies, Page 31

Merger set to bring fresh Swedish banking shake-up

By Hugh Carnegy in Stockholm

Swedbank in talks to create sector's second largest group

The pace of restructuring in Sweden's banking sector is set to intensify today with the announcement of a merger that will create the country's second-largest group by asset value.

Swedbank, one of the top four banks, and the smaller Föreningsbanken, a bank controlled by farmers, said yesterday merger talks had started. Their shares were suspended on the Stockholm bourse pending an announcement this morning.

A merger between the two would be the latest in a series of moves by leading banks to bolster themselves against sluggish market growth, increasing competition and the expected effects of European monetary union. There has been speculation that similar large-scale links may emerge in Norway as well.

Yesterday, Svenska Handelsbanken officially completed its SKr23bn ($3.12bn) takeover bid for Stadshypotek, the country's leading mortgage lender, to entrench its position as the biggest Swedish bank by asset value, with combined assets of some SKr850bn.

Skandinaviska Enskilda Banken, the financial flagship of the Wallenberg family industrial empire, recently broke off negotiations with Nordbanken on a link-up that would have brought together two groups with more than SKr900bn in combined assets.

Analysts said one effect of a link between Swedbank and Föreningsbanken, which have a combined market capitalisation of more than SKr40bn and combined assets of SKr650bn, would be to increase the pressure on SE-Banken and Nordbanken to resume talks.

Since recovering from a loan-loss crisis in the early 1990s, which prompted a SKr65bn state bail-out of several banks including Nordbanken and the savings banks that were combined to create Swedbank, the big four have recovered their financial strength and profitability.

But with some of the lowest cost ratios in Europe, little overall market growth and rising competition from insurance companies and other institutions, the banks are looking to each other to gain volumes and greater cost-cutting opportunities. A further threat is the advent of a single currency in much of Europe.

An important feature of a Swedbank-Föreningsbanken merger would be the potential gains from their branches, which have a high degree of overlap. Swedbank, known as Sparbanken to domestic customers, has 600 branches, while the rurally based Föreningsbanken has 500.

But it may be hard for the two banks to acquire revenue gains as they are both aimed mainly at the domestic retail banking market.

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MEPs move to censure Commission and may demand UK repayments

Brussels on the rack over beef crisis

By Neil Buckley in Brussels

The European Commission will face a censure motion, and Britain could face demands to repay EU funds spent on dealing with the beef crisis, during three days of debate starting in the European Parliament today.

The debate threatens once again to sour relations between the UK and its EU partners. Yesterday, Lord Lindsay, Scottish agriculture minister, said in Brussels that Britain would present a programme by the end of the month on meeting terms agreed at last summer in Florence for a phased lifting of the worldwide ban on British beef.

The European assembly in Strasbourg will vote on the highly-critical final report by its inquiry committee into the handling of the "mad cow" affair, after a six-month investigation. The report accuses the UK and the Commission of serious errors, and MEPs are keen to find ways to penalise them.

Brussels faces a censure motion, to be debated today followed by a vote on Thursday, presented by Mr José Happart, a Belgian Socialist MEP, backed by 70 signatories. The motion – the third of its type to be proposed since direct elections to the European Parliament began in 1979 – would, if passed, force the sacking of all 20 commissioners.

That would require at least 314 votes – half of all MEPs – and a two-thirds majority of votes actually cast. Few insiders expect it to clear those hurdles, but a substantial protest vote is possible.

A sizeable vote might force the Commission to go beyond the internal reforms already announced after the mad cow affair. These include transferring responsibility for human health from Mr Franz Fischler, agriculture commissioner, to Ms Emma Bonino, consumer policy commissioner.

Mr Jacques Santer, the Commission president, will this afternoon present the measures to parliament to try to head off a possible "conditional" motion of censure. Some MEPs have suggested this option, requiring the Commission to revamp its administration within a certain deadline or face censure, is more appropriate than Mr Happart's immediate censure.

Britain may face a call, introduced into the inquiry report by Mr André Laignel, a French Socialist, to repay EU funds spent on eradicating the disease. Mr Laignel's amendment says that if the Commission rejects responsibility for errors detailed in the report, it must at least reclaim the costs of the crisis from the prime culprit, Britain. However, the amendment, even if endorsed by MEPs, is not binding.

The Commission could also come under pressure to take legal action against the British government over the refusal by Mr Douglas Hogg, the agriculture minister who was the subject of a censure motion in his own parliament last night, to appear before the inquiry.

The UK has responded angrily to the MEPs' report, which it disputes on 26 points.

Lord Lindsay, representing Mr Hogg, told EU farm ministers yesterday Britain would present its programme for a phased lifting of the beef ban shortly. He ruled out early lifting in Scotland or Northern Ireland, where mad cow disease is less prevalent. "The government position remains that the Florence deal was a UK deal," he said.

EU struggles to reach statistical union

Member countries are finding it difficult to agree how to measure inflation across Union, writes **Wolfgang Münchau**

Preparing for Emu

European Union member states have failed to resolve a disagreement over the make-up of an inflation index, which is due to be published monthly from March 7. The index will be part of a wider set of EU statistics intended to establish comparable data across the Union in preparation for the single European currency – and to help determine which countries meet the Maastricht price stability criterion.

However, a working party of officials from national statistics offices and the Eurostat, the EU's statistical service, have proved unable to agree a common basis for assessing housing, education and health costs. Without these factors, there is a risk of significant differences between national and corresponding EU indices.

Early next year, finance ministers will consider which countries have met the inflation criterion for Emu: that inflation must be no more than 1.5 percentage points above the average of the best three inflation performers, though the treaty leaves open how the average is calculated, and over what period it is taken.

In its convergence report last November, the European Commission adopted an inflation rate measured as the simple average of the previous 12 months.

If the statisticians cannot settle their differences, ministers may have to intervene.

The issue would be bound to raise political sensitivities if a country were to challenge the statistical base for the selection of participants in Emu. One monetary official acknowledged that a country disqualified from participating in the single currency might do just that.

The working party hopes to iron out some of the differences by the end of the year. But, according to one senior statistician, disagreements have not narrowed substantially, though there has been some progress on a small item relating to housing costs.

"This is more a case of cultural than statistical differences," he said. "For example, EU countries have different ways of financing their education systems, and it is almost impossible to do justice to them all."

The inflation gap

Consumer price rises (falls) for November 1996

	EU* data	National stats
[illegible]	[illegible]	[illegible]
Belgium	2.4	2.4
[illegible]	[illegible]	[illegible]
Finland	1.4	0.7
[illegible]	[illegible]	[illegible]
Germany	1.3	1.4
[illegible]	[illegible]	[illegible]
Ireland**	2.3	2.0
[illegible]	[illegible]	[illegible]
Netherlands	1.8	2.4
[illegible]	[illegible]	[illegible]
Spain	3.2	3.2
[illegible]	[illegible]	[illegible]
UK	3.2	2.7

* Interim ** Based on quarterly data
Source: JP Morgan

The Commission has been publishing interim EU-wide inflation statistics since January 1996, excluding the three contentious items. The new index gives more flattering results for countries with high service sector price inflation when compared with the corresponding national statistics.

A comparison of the November data, in a report by the US bank J P Morgan, shows that the Netherlands, Germany, Austria and Greece fare better under the EU index than under their own national indices. Finland does substantially worse, with a discrepancy of 0.7 percentage points.

In the Dutch case the discrepancy arises because housing and education costs are growing more swiftly than average prices in the economy. Excluding them depresses the retail price index.

There is also a marked difference for Britain, owing mostly to the effect of mortgage rates. The interim EU data are closer to the UK underlying retail price index, which excludes housing mortgage costs, than the headline rate.

Ms Ellen van der Gulik, an economist with JP Morgan in Brussels, said that even though the EU-wide inflation data "may be comparable to some extent, it is a bit hard to argue that they are a 'fair' reflection of price stability in the member states. By excluding the costs of health care, education and owner-occupied housing, services prices are under-represented in the harmonised inflation rates."

Emu: who's going to make it

J P Morgan Calculator 17/2/97

	Yesterday	1 week ago	4 weeks ago
Germany	100%	100%	100%
France	100%	100%	100%
Belgium	100%	100%	100%
Spain	85%	74%	85%
Sweden	64%	66%	70%
Italy	62%	63%	74%
Denmark	38%	38%	56%
UK	31%	45%	42%

The Emu calculator provides a weekly snapshot of the probabilities which the financial markets place on selected countries being willing and able to join Germany in forming a single European currency in 1999. Currency strategists at investment bank J P Morgan calculate the probabilities from the interest rate swaps market, in which investors swap floating rate interest payments on an investment for fixed-rate ones. Countries are selected if they have a liquid swaps market which allows comparable probabilities to be calculated. The Netherlands is seen as being 100% certain of joining Emu. Finland, Ireland and Portugal will be added to the Emu calculator in the coming weeks.

Emu expectations have decreased recently outside Europe's hard core countries, as the markets reassess the likelihood of a wide Emu arriving in 1999

Under EU rules, the new index is supposed to be used only for external purposes and for evaluation of the Maastricht criteria. EU members will continue to use national statistics for domestic purposes, such as index-linking pensions or wages.

However, no EU regulation can stop a national trade union from adopting the more favourable among two competing price indices in formulating pay claims.

In Germany and Austria especially, countries with decentralised regional wage bargaining structures, unions base negotiations on published inflation rates. Discrepancies in wage settlements of one tenth of 1 per cent can translate into additional employment costs of billions of D-Marks in industries such as engineering or chemicals.

One statistician who has been involved in the negotiations defended the use of the new, albeit imperfect, statistics. "The valuation of the three items will not be anywhere near as significant for the outcome of who participates in the single currency as the actual statistical procedure that is ultimately adopted," he said.

The first publication of the new EU index will be on March 7, covering January. The index is to be published in the first week of the second month after the period under investigation.

Germany must wait to reap the benefits

By Andrew Fisher in Frankfurt

The German economy stands to reap considerable benefits from European monetary union but these will not outweigh the costs of preparing for the single currency until 2002, according to a study by Bayerische Vereinsbank.

In that year, the cumulative gains will exceed the costs by around DM11bn ($6.5bn), rising to a total net benefit of DM229bn in 2005, it says. The costs will be caused mainly by the spending curbs and savings needed to bring down the budget deficit and public debt levels to meet the Emu criteria.

The benefits will stem partly from the elimination of currency transaction costs and exchange rate uncertainties in Emu, which is due to start in 1999; this will improve the climate for corporate investment.

In addition, says the study, there will be a stimulus from improved efficiency in European capital markets, with greater liquidity and an increased range of financial products.

Thus, costs of raising capital will be reduced and the financial sector will come under intensified pressure to improve competitiveness and performance. The European bond market will be the world's second biggest behind the US and thus less dependent on US interest rate trends.

Vereinsbank puts the economic cost of preparing for Emu at DM26bn for 1997 (shaving 0.8 per cent off gross domestic product), easing to DM10bn in 1999 (0.3 per cent). Benefits will start to appear in 2000 when the positive impact will be DM8bn (an extra 0.2 per cent of gross domestic product), rising to DM95bn (2.5 per cent more) in 2005.

The bank thinks that, even without Emu, Germany will have to curb spending to put its fiscal position in order. However, the economy will benefit after Emu as Germany and others refrain from excessive borrowing under the influence of the Maastricht criteria and the stability pact.

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EUROPEAN NEWS DIGEST

Stalemate in truckers' talks

Talks aimed at ending a strike by Spanish truck drivers appeared deadlocked yesterday, with thousands of workers in northern factories temporarily laid off because of the conflict.

Mr Josep Piqué, industry minister, warned there was a "serious risk" that companies would lose export contracts, especially in motor components. Motor manufacturers have been among the worst affected by the partial stoppage. Germany's Volkswagen group was reported to have suffered interrupted production of the Polo model at its main Wolfsburg factory because of a lack of supplies from its plant near Pamplona.

The interior ministry said the situation on most Spanish roads was returning to normal, with police escorting convoys of trucks through trouble areas. But the northern Cantabria region was still virtually paralysed. The strike organisers, representing only part of the sector, are seeking improved conditions including earlier retirement.

The ramifications of the conflict became increasingly complicated as taxi drivers sympathetic to the truckers' demands staged strikes in Madrid, Barcelona and other cities. At the same time, petrol-station owners were up in arms over a government concession to the truckers last week, allowing transport co-operatives to buy diesel oil directly from oil companies. *David White, Madrid*

Policeman killed in Bilbao

The escalation of Basque terrorism in Spain claimed a further victim yesterday when a policeman died in a car bomb attack in Bilbao. It was the sixth killing so far this year attributed to Eta, the outlawed separatist group.

The 33-year-old victim, assigned to a local court, was a member of Spain's national police, which operates in the Basque region alongside the regional police force and the paramilitary Civil Guard. The bomb exploded as he drove out of the garage of his home, next to a school in the main Basque city, which had not seen a fatal terrorist attack for two years. A police union official described the killing as the work of "foul-smelling Eta rats."

The recent wave of attacks, including the shooting of a judge in Madrid last week, coincides with tension over a supreme court investigation into Herri Batasuna, the political party linked to Eta. More than 20 protesters were injured in clashes at the weekend, two of them with bullet wounds after police opened fire. *David White*

Bulgaria raises petrol prices

Bulgaria's interim government yesterday raised petrol prices by 178 per cent in an attempt to free suppliers' volumes kept in storage, Mr Stefan Sofianski, the prime minister, said.

A litre of petrol cost 10 cents last Friday based on a rate of 660 levs per dollar. However, the lev is trading at around 3,000 per dollar. As a result, the country's biggest oil refinery Neftochim, which supplies almost the whole domestic market, has sunk into debt and suppliers have refused to deliver crude to it.

"We hope that the lev/dollar exchange rate will stabilise despite the price rise. The crisis and the chaos are enormous," said Mr Sofianski.

On Friday the new interim government, which inherited crippling fuel and grain shortages, banned fuel exports until April 30 and troops enforced border controls in a bid to curb oil smuggling by companies and private motorists.

Most petrol stations have been closed because of the fuel shortage and municipalities are distributing petrol and diesel for ambulances, food delivery trucks, the police, the army and social services. *Reuter, Sofia*

German railway appointment

German government officials confirmed yesterday that a senior aide to Chancellor Helmut Kohl would be appointed to run the national railway Deutsche Bahn AG.

The transport ministry said Mr Johannes Ludewig, state secretary in the economics ministry, would be appointed to head the railway at a meeting of the supervisory board scheduled for last night.

Mr Heinz Duerr, the current Deutsche Bahn chairman, would take a seat on the supervisory board, officials said. The final decision about Duerr's successor would be taken by the supervisory board on February 26.

The opposition Social Democrats claimed naming Mr Ludewig to head Deutsche Bahn would hinder the railway's conversion from a state bureaucracy to an independent corporation. *Reuter, Bonn*

Call for Nazi gold meeting

Switzerland has backed a British call for an international Nazi gold conference which would be attended by representatives of all countries which handled gold and other assets looted by the Germans during the second world war. Mr Greville Janner, the British Labour MP and president of the inter-parliamentary council against anti-semitism, (left) and Mr David Hunt, a former Conservative cabinet minister, raised the issue with Mr Flavio Cotti, Switzerland's foreign minister when they met yesterday. The meeting was set up to review Switzerland's progress in taking steps to set up a humanitarian fund for survivors of the Nazi holocaust.

Mr Janner said there was much research under way into the wartime role of Switzerland and other countries which were conduits for looted Nazi gold, but the research was not co-ordinated. *William Hall, Zurich*

ECONOMIC WATCH

Rise in Czech earnings

Czech industrial workers earned 17.4 per cent more in 1996 in nominal terms than in 1995 and spent more in the country's stores and car showrooms, according to figures released yesterday by the Czech Statistics Office (CSU). The real wage – the net sum after inflation is taken into account – grew 7.9 per cent throughout 1996, though the average nominal monthly wage remains relatively low at Kc10,461 ($370).

Retail sales grew 9.6 per cent last year – rising by 12.5 per cent in December alone – in comparison with 1995. Spending on purchases of new cars and petrol rose 21.8 per cent. High imports of cars is one of the factors keeping the external trade deficit high.

While there are signs that productivity is increasing it does not appear to be keeping pace with wage growth. The CSU figures showed real industrial output rose 6.8 per cent in 1996. *Vincent Boland, Prague*

■ Germany's annual inflation rate rose to 1.8 per cent in January, compared with 1.4 per cent in December, the federal statistics office confirmed yesterday. The final cost of living figures reflected the upward pressure on prices caused by a severe winter.

■ Finland's industrial output in December was up 8.8 per cent from a year earlier, the Central Statistical Office said.

Chancellor Helmut Kohl welcomes US secretary of state Madeleine Albright to Bonn yesterday *Reuter*

Russia's anti-monopoly chief fired

By John Thornhill in Moscow

The head of Russia's anti-monopoly committee has been removed from his post, raising questions about the government's commitment to implementing the structural reforms the International Monetary Fund says are vital for promoting economic growth this year.

Mr Leonid Bochin said his sacking earlier this month – which was abrupt but without public fuss – had been brought about by a powerful financial oligarchy which feared his committee's efforts to block developing close links between economic and political power.

"What we are now seeing is terrible," Mr Bochin said in a newspaper interview. "We are witnessing the worrying arrival in power of state monopolistic circles. "Naturally, in such circumstances it is extremely beneficial to many people to get rid of me and appoint a perfectly loyal and non-confrontational person at the anti-monopoly committee." No successor has yet been named.

Mr Bochin, an economic liberal who became head of the anti-monopoly committee in 1992, said he was informed of his dismissal by Mr Vladimir Potanin, first deputy premier in charge of the economy.

Mr Potanin, who previously headed the Oneximbank financial group, is one of a group of seven bankers which strongly backed President Boris Yeltsin's re-election campaign and whose businesses have benefited from close links to the Kremlin.

Government officials rejected Mr Bochin's accusations, saying he was removed from office precisely because of his ineffectiveness in implementing competition policies.

They said the government was intensifying efforts to confront the country's natural monopolies, highlighting recent comments by Mr Yevgeny Yasin, the economics minister, arguing for restructuring of gas and electricity.

This month the government created a working group to develop ways of regulating Russia's natural monopolies – such as gas supply, electricity generation, and railways – more effectively. The group is due to present its proposals at the beginning of May.

The government is locked in talks with the IMF about its economic agenda for the year and is this week likely to commit itself to a wide-ranging programme of micro-economic reforms.

Mr Charbel Ackermann, of Boston Consulting Group, which has advised the government on structural reform, said there did appear to be a new political resolve to press ahead with anti-monopoly policies first formulated in 1992.

"This will be very important for the government's medium-term anti-inflationary policy," he said. "It is now possible to think seriously about separating electricity production and transmission, although I am less certain whether it will be possible to separate gas transportation and production."

Reformist ministers argue that powerful monopolies are hampering the development of competition and distorting Russia's domestic market. But Mr Bochin argued his anti-monopoly committee never had the resources, nor political backing, to tackle such strong vested economic interests.

Mr Bochin also claimed the government decree removing him from office was illegal. Only the president had the authority to fire him.

Bonn seeks to calm Russian fears on Nato

By Ralph Atkins in Bonn and Bruce Clark in London

Germany yesterday used a visit by Mrs Madeleine Albright, US secretary of state, to call for maximum *efforts to reassure Russia* about the planned expansion of Nato.

Mr Klaus Kinkel, Germany's *foreign minister*, said he hoped a proposed agreement between Nato and Russia would amount to "a substantial charter". He also expressed optimism that a deal over new entrants to the alliance would be struck at Nato's Madrid summit in July.

He did not rule out French proposals for a five-power summit, including Britain, the US and Germany as well as Russia, aimed at overcoming Moscow's objections to expansion of Nato.

"We have to do everything we can to make it easier for Russia and the Russian people to accept Nato expansion.... We should think about everything that might be helpful," he said.

However, Mrs Albright, on a tour of Europe intended to smooth the path to enlargement, appeared less enthusiastic about the French proposal.

"We're now focusing very much on the substance of the Nato-Russia charter," she said, adding: "It is the substance that interests us, *not the process.... We're* steadily moving along the road to Madrid."

Russia and Nato officials *have already sketched out* the main areas for co-operation the charter will envisage: they include arms control, non-proliferation, the planning and execution of joint peace-keeping operations, emergency relief and environmental issues related to defence.

But Moscow has called for a *full-blown treaty while* Nato would favour a document that is politically, but not legally, binding. Moscow *would also* prefer the Russia-Nato agreement to be concluded before Nato enlargement is launched, *while the alliance insists* that it cannot give any third party a veto over its plans to incorporate new members.

Mr Werner Hoyer, Germany's deputy foreign minister, highlighted Nato's difficult balancing act in a speech yesterday.

He said the proposed Nato-Russia relationship should be more substantial than the present practice of ad hoc consultations on a "16 plus 1 basis" – but it should not act as a block on Nato's ability to act.

As well as reassuring Russia, the alliance faces some hard questions about which countries to include in the "first wave" of Nato expansion that is due to be completed by spring 1999.

While Poland, Hungary and the Czech Republic look almost certain to be in, France is pressing hard for Romania to be added, and Slovenia is strongly backed in several quarters, from the US military to south European governments which fear that Nato's orientation is shifting northwards.

Mr Kinkel yesterday raised the prospect of a single list of countries being admitted to Nato and form*ing the next wave of Euro*pean Union members, but emphasised that no decisions had yet been taken *possible entrants*.

To reassure those left out, he said: "We will have to make clear that this is an *ongoing process*."

D'Alema draws new image for his party

The leader has put Communist past behind him and is trying to do the same for his PDS, writes **Robert Graham** in Rome

Mr Massimo D'Alema has successfully distanced himself from his communist past. But as leader of Italy's Party of the Democratic Left, he still has a long way to go *in convincing the electorate* that the PDS is something more than the metamorphosis of the Italian Communist party (PCI) which collapsed in the wake of the fall of the Berlin Wall.

Created in 1991, the PDS *owes its strength to the well-*oiled organisational machine inherited from the PCI, and the bulk of its vote comes *from* former Communist sympathisers.

One of Mr D'Alema's main tasks at the first PDS congress, which opens on Thursday, is precisely to broaden the party's appeal with a convincing endorsement of a social democratic platform. If the 47-year-old leader succeeds, the PDS has the chance of competing for the centre ground where most of the electorate is concentrated.

On other hand, if the PDS remains overly linked to its Communist past, it is unlikely to improve much on its 21 per cent of the vote for the foreseeable future. That is a very respectable percentage in Italian terms, but it would never give the party control of government, merely the dominant say – as it has in the Centre-Left Olive Tree alliance headed by Mr Romano Prodi.

In the run-up to the congress, Mr D'Alema and his allies have undertaken a critical reassessment of the role of the PCI in postwar Italy, especially during the long leadership of the late Enrico Berlinguer.

Mr D'Alema himself has referred to Berlinguer as a "*defeated reformer*". If he means by this that the old PCI failed to dispel the Communist bogey, he is right.

The main political anomaly in Italy was that the PCI, the second largest party after the Christian Demo*crats, with a third of the* vote, was denied office for four decades. Even for the April 1996 general election it was considered electorally unacceptable that an ex-Communist, Mr D'Alema, be put forward as prime minister despite leading the dominant Olive Tree partner.

A book published late last year and provocatively entitled *Dimenticare Berlinguer* (Let's Forget Berlinguer) dared to criticise the party's hero and question how much he really achieved by taking the high moral ground against a succession of corrupt Christian Democrat-led governments.

The book includes an anecdote from Mr D'Alema about how he attended as a young Communist apparatchik the funeral in Moscow in 1984 of the Soviet leader Yuri Andropov, after the PCI had endorsed Italy's membership of Nato and had criticised the Soviet Union over Czechoslovakia.

The PCI delegation was kept waiting to view the coffin. The Soviets claimed that they had been waiting for the PCI wreath to arrive although it had clearly been in place for several hours. Berlinguer then observed that Communist regimes had three basic characteristics: "The leaders always tell lies even when not necessary; the agriculture doesn't work; and the paper on the sweets they offer always sticks."

The anecdote is told to show that Berlinguer remained committed to solving an industrialised western society's problems from a Marxist viewpoint in spite of being aware of the faults in the communist system.

Mr D'Alema no longer wishes to be so shackled. Since being elected leader in 1993, he has gradually steered the party towards a caring, market-oriented economy which looks remarkably like parts of Mr Tony Blair's New Labour in the UK.

He has been the principal backer for the privatisation campaign of Mr Carlo Azeglio Ciampi, the Treasury minister, and has accepted the need to cut back on welfare benefits, notably pensions.

He has shown considerable courage by pressing for constitutional reform, and his prestige is now staked on a reform commission (which he chairs) coming up with serious proposals.

Although the congress has been painstakingly prepared to ensure a big show of support, he does not have all the party with him.

Some, like Mr Walter Veltroni, the deputy premier, want to make a broad grouping out of the Olive Tree alliance which would absorb the PDS. Others remind him that the centre-left won the elections in part because they promised to protect, not to slash, welfare benefits.

There is also an element within the PDS which still believes it possible to win back the hardline Communists who split six years ago to form Reconstructed Communism (RC), taking almost a third of the old PCI vote.

Mr D'Alema would dearly like to separate his party completely from RC and its astute leader, Mr Fausto Bertinotti, whom he regards as an electoral liability. But so long as the present government relies on RC for a parliamentary majority, Mr D'Alema's ambitions risk being curtailed.

D'Alema: aiming for the centre ground

NEWS: EUROPE

Weighted voting system proposed for EU

Van den Broek warns national veto is leading to foreign policy paralysis

By Peter Norman in Bonn

A system of majority voting taking account of the different political, economic and military weight of European Union member states was proposed yesterday by a senior Brussels commissioner as a way of creating a common European foreign and security policy.

Mr Hans van den Broek, the foreign affairs commissioner, warned that the national veto and consequent need for unanimity was "leading to paralysis" in EU foreign policy.

He urged qualified majority voting for foreign policy and security issues, but said Union members would have to recognise that "some are more equal than others".

Making clear that he was expressing a personal view rather than Commission policy, Mr van den Broek told a conference organised by the European Commission's office in Bonn that numbers alone should not determine foreign policy decisions in a system of majority votes.

Germany, France and Britain occupied special positions because of their economic power, military strength or diplomatic influence, so it would be difficult for the EU to adopt a foreign policy stance against the wishes of two or more of these "major players".

He suggested a system of weighting votes to take account of these "obvious differences" or some other provisions to ensure that no important decisions "could be taken without the assent of at least some of the major players".

Mr van den Broek was speaking in an attempt to ease a deadlock on future EU foreign policy in the intergovernmental conference to revise the Maastricht treaty that is due to be concluded at the EU summit in Amsterdam in June.

He admitted that his views would be controversial and could upset countries such as Spain and Italy.

They were immediately rejected by Mr Björn von Sydow, the Swedish defence minister, who said his own country was influential in foreign affairs and was currently an elected member of the United Nations security council.

The commissioner put his ideas in the context of a "big bargain" in which "major member states" would commit themselves to a "real common foreign and security policy" in which all EU members would be involved in exchange for recognition of the greater weight of some member states.

The bargain would protect smaller EU members against the heavyweights acting on their own.

Mr van den Broek's plan envisaged no future meetings of the contact group on former Yugoslavia – Germany, France, Britain, the US and Russia – without prior consultations among all Union member states. EU-wide consultations would also apply ahead of the so-called Quint meetings of Germany, France, Britain, Italy and Spain on Turkey.

Immigration bill sparks war of words in France

By David Buchan in Paris

Mr Alain Juppé, the French prime minister, yesterday warned the country's intellectual and professional classes that they were playing into the hands of the far right by preaching civil disobedience to a new immigration bill.

Meanwhile, Mr Lionel Jospin, leader of France's socialist opposition, said that if his party won next year's elections it would repeal the controversial section of the proposed immigration law that would expand official reports the French are supposed to make on foreigners who are guests in their homes.

The campaign against the proposed *Loi Debré* – named after its sponsor, Mr Jean-Louis Debré, the interior minister – has mushroomed in the past week, with groups ranging from film directors to dentists calling on people to disobey the law if it passes parliament and offering to take in illegal immigrants in defiance of the reporting requirements. Some petitions have likened the *Loi Debré* to decrees passed by the Vichy regime during the second world war.

Mr Juppé said civil disobedience threats were "serious" because they undermined France as "a state of law and democracy", adding that to talk of Vichy was to "mix everything up".

The prime minister pointed out that parliament could still amend the draft law on its second reading, as could eventually the Constitutional Council. The latter may indeed amend the reporting clause which has already been deemed questionable by a government tribunal. In 1982 the Socialist government decreed that foreigners, from outside the European Union and without proof of money or hotel reservations, had to get an officially-approved affidavit from a French host to get a visitor's visa.

Mr Debré is now proposing that French hosts must also inform their local mayors when their foreign guest leaves. This apparently minor change would create computer records on the movements of all non-EU foreigners in France.

The far-right National Front's recent electoral successes have raised the question of whether France's mainstream parties – socialists as well as centrists and conservatives – have been influenced by the NF in cracking down on illegal immigration to remove one of the supposed reasons for the NF's rise.

Juppé: issued warning after civil disobedience threat AP

Slovenia party deadlock broken

By Jack Grimston in Ljubljana

Slovenia's three-month political deadlock seemed over yesterday as party leaders put the finishing touches to a left-right coalition brokered over the weekend.

The coalition will ally Mr Janez Drnovsek, the Liberal Democrat (LDS) leader, who has been prime minister since 1992, with Mr Marjan Podobnik, of the right-of-centre People's Party (SLS), backed by the small DeSUS pensioners' party.

Talks between the two leaders began after Mr Drnovsek's first proposed government, including a clutch of leftwing parties, was rejected by parliament on February 6. The coalition theoretically had a two-vote majority but one deputy changed sides in the secret ballot.

Talks were still taking place yesterday on the distribution of ministries; no decision had been taken on what job Mr Podobnik would do, and the defence portfolio was not allocated. The coalition should be able to muster 52 votes in the 90-member assembly.

Mr Drnovsek had until midnight last night to name a new government.

But Slovenia is still some way from having normally functioning institutions, which it has not had since November's general election.

Ministerial candidates face questioning by parliamentary committees before a vote of the National Assembly, the lower house, probably at the end of the month.

Slovenia's Social Democrats called Mr Podobnik's role in the coalition talks "questionable", while the Christian Democrats said they would vote against all the new government's legislation, except, possibly, for membership of Nato and the European Union.

If the government is elected, hoped-for EU membership will be one of the first questions tackled. Mr Drnovsek has made ratification of an association agreement signed with the EU last June top of his priorities.

But the SLS is wary of making too many concessions to the EU. The rural-based party fears that changes to the constitution to allow foreign land ownership, a condition of the agreement, could leave Slovenia's 2m people vulnerable to foreign domination.

With the LDS likely to retain control of key ministries, including finance and foreign affairs, the general thrust of the past five years' market-oriented reforms is unlikely to change. Gross domestic product has grown by an average 4 per cent a year since 1993, after a short but steep recession following 1991 independence.

UK hits at slow progress on gas

By Gordon Cramb in Leiden

Agreement on liberalising the gas industry within the European Union is being put further from reach because some member states are clinging to unnecessary measures to protect dominant suppliers, Lord Fraser of Carmyllie, British energy minister, warned yesterday.

Promising talks on a draft gas directive had "seen some slipping" back to previous positions, and did not look likely to produce a result in time for the EU's Amsterdam summit in mid-June.

Officials are due to meet in The Hague on Thursday to seek a way forward, but Germany and France are said to be among those holding out.

"These discussions continue to be focused on the aim of introducing liberalisation solely by means of providing for third party access to pipelines owned by incumbent suppliers in the market," he said.

While important, this was not enough, and even on that issue some governments were hesitant. In addition, the company selling the fuel to end-users needed to be distanced from pipeline ownership, or governments would have to fight an inbuilt incentive by the network operator to restrict competitive access.

Pricing should be transparent, with discrimination outlawed. "But sadly, I observe that many of our European partners consider such a basic provision to be unnecessary or 'too ambitious'," he told an audience at Leiden University.

National security of supply, one focus of continental concern, was enhanced by more diverse sourcing, he argued. Another surrounded the long-term "take or pay" contracts into which many suppliers said they were locked, and which would be burdensome if they rapidly lost market share. Most in fact contained price reopener clauses, he maintained.

Andorra Liberal Union party re-elected

By Andrew Jack in Paris

The tiny Pyrenean mountain state of Andorra is likely to be opened to more foreign investment following the overwhelming re-election of the ruling UL Liberal Union party on Sunday.

The party, headed by Mr Marc Forné Molné, the outgoing prime minister, won 18 of the 28 seats in the national assembly, in a turnout of nearly 82 per cent of the 10,837 voters.

The clear win will put an end to the series of fragmented coalition governments since the country adopted a new electoral system with its first constitution, approved in 1993.

In an interview before the vote, Mr Forné indicated his support for policies which would remove the restriction limiting foreign investors to holding a maximum of one third of the capital of any Andorran company.

He also said he planned to re-open discussions over relations with the European Union, and wanted to develop a series of double taxation treaties to avoid Andorrans being taxed elsewhere.

In exchange, he said he was considering introducing a limited form of tax on profits – of up to 15 per cent – for foreign companies, which he wanted to encourage, partly to provide more skilled employment for young, university-trained Andorrans.

He said that the introduction of income tax, which he said would prove controversial and costly to collect in proportion to the money raised, but said he was considering other taxes such as a charge on property transactions.

Mr Forné also hinted that the country's current low duties on imported tobacco – which serve to protect domestic tobacco cultivation and processing – could be increased to help increase government revenues.

He said other revenues – to reduce the accumulated state deficit of Pta22bn ($153m) – could come from the Spanish lottery, which operates in the country, and from the creation of a casino or local lottery.

The prime minister said he was less reluctant than before to open up the banking sector to new financial institutions, and suggested he did not want Andorra to be seen as a tax haven. "We do not want to be a Post Office box," he said.

He likened his UL party to France's centre-right ruling parties, combining some free market policies and the need for controls on "excessive" state intervention with progressive social policies such as the possibility of legalising abortion and pornography – illegal because of the influence of the bishop of the nearby Spanish town of Urgell, who remains under the constitution one of Andorra's "co-princes" alongside the French president.

NEWS: WORLD TRADE

Congress may try to trip up telecom deal

By Guy de Jonquières

The weekend agreement to liberalise world telecommunications may face obstacles in the US Congress, though a "vast majority" of congress members are expected to support it, a senior US trade official said yesterday.

Mr Jeffrey Lang, deputy US trade representative, said the main challenge was likely to come from a vocal minority of legislators who claimed the agreement required Congressional approval.

He said the Clinton administration was preparing a big push to persuade Congress that the deal was covered by its existing trade negotiating mandate, and that it genuinely met US economic and industrial interests.

"I think it will be difficult. But it can be done once Congress is apprised of the commercial opportunities which the agreement opens up and, in particular, of the pro-competitive regulatory principles it contains," Mr Lang said.

"I would say a vast majority of senators and congressmen think the deal is a good one for the US, and a smaller majority think no legislation is needed to approve it," he said.

Senator Ernest Hollings recently tabled an amendment which would require the telecoms deal, and all future international trade agreements, to be approved by Congress.

Though the amendment is thought unlikely to pass, it reflects concern on Capitol Hill about delegating too much negotiating authority to the administration.

Some senior administration officials believe this issue could become a focus of controversy later this year, when President Bill Clinton asks Congress for renewed "fast-track" authority to negotiate trade agreements.

Before then, committees in both houses of Congress plan hearings on US trade policy. Mr Lang expected these to focus on the telecoms agreement, the operation of the World Trade Organisation and agriculture.

He said the hearings would be difficult because they had to "take account of a new international trading regime which nobody knows much about... Congress will want to know how we get agreements, what our leverage is and what our basic objectives are."

He said Congress was exercised about agriculture, because the US believed other countries were not living up to their Uruguay Round obligations. He cited problems with the European Union over imports of rice and genetically modified food.

Mr Lang doubted that renewed fast-track authority could be secured without strong support from agricultural interests, because so many representatives from farm states sat on influential congressional committees.

Telecoms winners and losers, Page 19

IBM builds global software team

By Paul Taylor in Stuttgart

International Business Machines will unveil plans today to establish an innovative round-the-clock development cycle using programmers in China, India, Belarus and Latvia to build state-of-the-art Internet software "components" using the Java programming language.

These software components – called "JavaBeans" – are expected to form the building blocks for sophisticated Internet business applications in the future covering areas such as human resources management, financial trading and sales and marketing. IBM is planning to spend several hundred millions of dollars over the next few years to incorporate Java technology into its business software products.

The project, believed to be the first of its type, will link teams of programmers from Tsinghua University in Beijing, IBM's joint venture with India's Tata group in Bangalore, the Institute of Computer Science in Minsk, Belarus and the privately owned SWH Group in Riga, Latvia. Each team will consist of 31 software programmers co-ordinated by a 24-strong IBM team in Seattle.

Mr Mark Bilger, IBM's director of software development for emerging markets, who has put the project together said: "What we were originally trying to do was to lower our costs but we discovered as a side effect that it reduces the time to market as well."

The software development markets in such countries as India have grown rapidly in recent years fuelled by the need in the west for highly skilled programmers, who are in short supply in places such as California's Silicon Valley. By tapping into these offshore resources IBM hopes that it can cut both development cost and development time.

Poland's dismantled car imports hit trouble

By Christopher Bobinski in Warsaw

The European Union's drive to force Poland to crack down on imports of car assembly units by Daewoo, the Korean industrial group, will also affect EU manufacturers such as Volkswagen which also assemble cars in Poland to avoid high tariffs.

The dispute with Brussels over Daewoo, which has a $1.4bn investment programme in Poland, centres on imports to Poland of complete, but dismantled, Daewoo cars. The cars are shipped whole to Slovenia where they are dismantled into eight units before being imported to Poland. The disassembled cars avoid tariffs of 35 per cent.

The EU has objected to Daewoo's re-assembly operations on grounds that they gain an unfair advantage over whole car imports from EU manufacturers.

Poland wants to settle the issue before Mr Wlodzimierz Cimoszewicz, the prime minister, visits Brussels later this week. He will tell the EU that import practices for all car assembly manufacturers, including those from the EU, are to be changed.

EU manufacturers have complained that Poland, Europe's fastest growing market, with sales of 370,000 cars last year, is contravening international customs accords. In future, car assembly importers are to be told to bring parts of individual vehicles into the country in different shipments and on different days. Daewoo has agreed to this and promised to change its import practices by March 15.

However, the new system will also hit Volkswagen, which this year is planning to assemble in Poland 30,000 Skoda cars imported from the Czech Republic. Fiat also assembles its Brava and Punto models in its FSM plant in southern Poland. Indications that Poland was planning to change its import rules have worried Opel, which in 1998 will begin assembling cars at its Gliwice plant.

The change in rules is an embarrassment for the government. Fiat, Opel and Volkswagen have official pledges in writing that the rules for imports of car parts for assembly will not be changed until 2001. This is when tariffs on imported cars from the EU, now at 25 per cent, are to be removed.

Patent medicine promises recovery for drugs sector

Liberalisation and plans for stricter patents laws have raised interest in India's home market and the export potential of its generic drugs sector

India has long been a tantalising prospect for the world's big drug companies. With 900m people spending an average of just $3 a year each on medicines, it ought to be a growth market.

In practice, the subcontinent has proved a difficult market – with lax patent laws, intense competition from a plethora of domestic companies and price controls.

Now, however, liberalisation of the industry and the planned introduction of new patent laws in 2005 in the wake of the Uruguay Round of trade negotiations have renewed interest in India's domestic market and in the country's potential as an exporter of low-cost drugs.

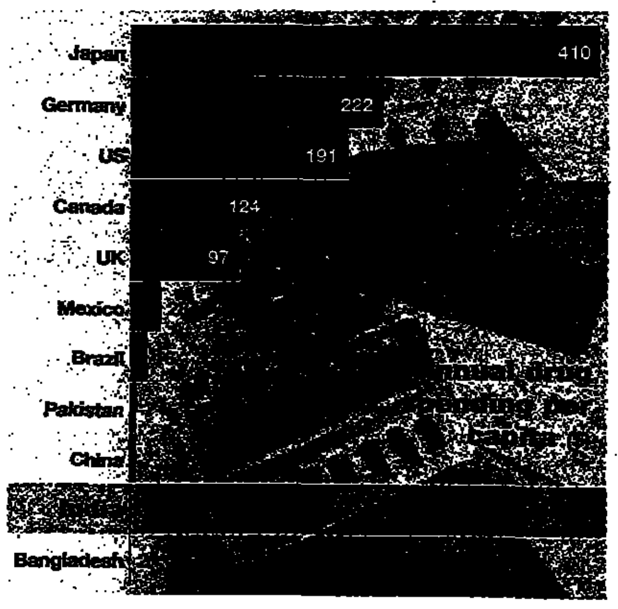
For multinationals, the changes have been long overdue. Since government controls on drug prices were introduced and patent laws relaxed in 1970, their market share has fallen from about 80 per cent to 30 per cent.

Under the 1970 laws, a patent was imposed on drug manufacturing processes but not on products. This triggered a proliferation of domestic pharmaceutical companies, mostly churning out cheap copies of patented drugs.

There are more than 24,000 pharmaceutical companies in India with annual aggregate sales of about Rs120bn ($3.3bn), according to brokers InvesTrust. Only about 40 of these boast sales over Rs1bn a year.

The growth of the domestic industry has resulted in some of the world's lowest drug prices for consumers and has made medicines more widely available. But it depressed the profit margins of multinationals.

Mr T. Thomas, chairman of Glaxo India, believes there is strong, long-term potential in the Indian market. He says the industry's sales growth of about 11 per cent a year is much better than in more mature, developed markets.



New patent laws in 2005 would offer new opportunities for multinationals to expand market share through new drugs, he says, but some might be deterred in the short term by continued competitive conditions.

"If the multinational companies take a long-term view they will continue to invest and expand in the market," he says.

The cost of setting up a drugs plant in India is a third that of Europe or the US

Under the recent changes, new product patents have been recognised since January 1995. After 2005, all product patents will be recognised.

The number of drugs under price control has dropped from 142 to 73 and the government has liberalised some of the earlier controls on multinationals' ownership of their Indian affiliates.

Under the 1970 regulations, multinationals were forced to reduce their stakes in Indian affiliates to 40 per cent. In 1994, they were allowed to increase holdings back to 51 per cent.

Glaxo Wellcome already has moved to do this with its two soon-to-be-merged local subsidiaries Glaxo India and Burroughs Wellcome India, as did SmithKline Beecham with its local arm. Some multinationals have also been allowed to set up wholly owned subsidiaries focusing on exports or research.

But Mr Ashit Kothari, analyst with InvesTrust, says the real impact of the patent laws would not be felt for many years after 2005. He says only 10 per cent of India's current drug consumption would be subjected to patent laws after 2005.

Mr Kothari adds that industry margins would remain under pressure as rising competition was expected to result in the rapid launch of new brands, increasing costs.

Dr Parvinder Singh, chairman of Ranbaxy Laboratories, says a consolidation of the Indian industry was inevitable ahead of the 2005 patent deadline. "In five to seven years from now, there will be a lesser number of larger, more robust companies that can sustain the onslaught of emerging competitive dynamics."

By contrast, Mr Thomas said the scope for multinationals to increase market share through acquisition was likely to be limited.

He pointed out multinationals were unlikely to want to acquire companies that had grown largely through breaking international patents. In addition, there were strong "cultural" differences between multinationals and domestic companies.

Perhaps one of the most significant future growth avenues for multinationals in India is not so much the domestic market but use of the country to make drugs and carry out development work.

Mr Kothari said India's exports at present amounted to less than 0.3 per cent of world demand for drugs.

But he said patents for branded drugs valued at more than $30bn in the US and $15bn in Europe were likely to expire between 1997 and 2005. "With the opening up of the huge generic drug market, the search for low-cost, high-quality producers will intensify, forcing production bases to relocate to cheaper sites."

Mr Kothari added that the capital cost of setting up a pharmaceutical plant in India was a third that in Europe or the US. Indigenous plant and machinery, low staffing costs, availability of raw materials at competitive prices and weak environmental regulations also keep costs down.

Already domestic companies such as Wockhardt, Dr Reddy, Cipla, Lupin Laboratories and Cheminor Drugs have plants approved by the US Food and Drug Administration and have applied to sell a few drugs that are about to go off patent.

Tony Tassell

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Palestinians' new stock exchange opens for business today

'This is part of the building process of a state.' **Judy Dempsey** examines a potent symbol of independence

It takes patience and skill for drivers to negotiate the busy streets of Nablus, packed with new cars and new shops. But after a few sharp turns and a steep hill, one arrives at the Al Qsra Building, home to the Palestine Securities Exchange (PSE), which opens for business today.

It is hardly surprising to find the exchange in Nablus. This commercial city is home to many Palestinian entrepreneurs, some of whom stayed after Israel occupied the West Bank 30 years ago, while others went abroad, to the US, the Gulf states or neighbouring Jordan. Some are returning with the skills they have gained. One of them is Mr Safran Bataina.

Mr Bataina is the general manager of the PSE. For him, the establishment of the exchange, three years ahead of schedule, is another step towards a Palestinian state.

"The stock exchange is associated with statehood. It is part of the building process of a state," he said.

For Mr Jiries Qassis, one of the PSE's four brokers, it will also "provide a vehicle for attracting and channelling savings from the Palestinian diaspora".

But when the PSE's doors open today, it will have none of the buzz and razzmatazz characteristic of the world's older exchanges. In fact, there will hardly be a need for a trading floor.

"One of the few advantages in starting from scratch is that you can install one of the most modern computer networks to facilitate transactions," explained Mr Bataina. "Trading floors are sort of obsolete. We have also had the advantage of learning from the experiences of other emerging markets, such as Slovenia, or smaller exchanges, such as Canada's Alberta."

Mr Bataina, who is 43, gained his stock market experience in London and New York before becoming economic adviser to the Jordanian government in the later 1980s. He came to the West Bank in 1994 and was appointed manager of PSE a year later.

Since then, many Palestinian companies have gone public. They include utilities and telecommunications, property, construction, chemicals and insurances groups. In the coming months, over 60 companies, with a total market capitalisation of JD700m ($986m), will be traded.

Mr Bataina has no illusions about the first few months of PSE's operations. Initially, he expects the annual volume to total only JD30m but rising to JD120m next year. By the end of the decade, he is confident volume will account for 20 per cent of market capitalisation, which he hopes will rise to JD2bn. But as ever, much hinges on the peace process.

The peace process has not been particularly kind to PSE. Despite a peace agreement between Jordan and Israel in October 1994, the Israelis only issue two-week visas to Jordanians of Palestinian origin who wish to work in the West Bank.

Mr Suleiman Shihadah's parents fled Jerusalem in 1948 and settled in Jordan, where he set up a successful computer software business. Like many other Palestinians living in Jordan, he is transferring these skills to the PSE where he manages the *systems and technology department*.

"My family and I have to return to Jordan every two weeks so that we can reapply for another visa," he explains. "It is very tiring. But I feel it is a national duty to transfer the experience one gained from working abroad to here. There is a real need of such experience and skills."

The Israeli banking system, says Mr Bataina, has also excelled in bureaucracy, particularly clearing procedures. The PSE has initially introduced a five-day clearing system through the Amman-based Arab Bank, the largest in the region.

And because it takes "ages" for Israeli banks to clear transactions and "is very expensive," Mr Bataina says the PSE will trade in the Jordanian currency and US dollar – revealing, perhaps unwittingly, the ever closer relations being forged between the economies of Jordan and the West Bank and between the Palestinian diaspora in Jordan and Palestinians in the West Bank.

But there is even a more fundamental problem facing the PSE. Investors wanting to visit companies in which they have bought or thinking about investing still face daily obstacles. "Palestinians are not allowed to travel freely between the West Bank and Gaza or even between West Bank towns. Israeli road blocks still exist. I could not even make a presentation in Gaza," said Mr Bataina.

Still, against all the odds, PSE will be launched today. And as if to emphasise Mr Bataina's point that it will be one of the planks of the Palestinian state, the PSE's postal address will not mention the West Bank or the Palestinian Authority.

It will simply be Palestine.

Russians dying earlier, says WHO

By Frances Williams in Geneva

Diseases of the circulatory system, including heart disease and strokes, are by far the biggest killers in much of the world, followed by cancer and respiratory diseases such as pneumonia, according to the latest *statistics compiled by the* World Health Organisation.

Its 1995 World Health Statistics Annual also highlights the dramatic fall in male life expectancy in the former Soviet Union, especially Russia, since its collapse in 1991.

The WHO statistics show that diseases of the circulatory system account for up to 60 per cent of all male deaths and up to 70 per cent of female deaths in the 60 or so countries supplying figures.

The highest death rates from circulatory diseases for both men and women are found in the former Soviet Union – Russia, Turkmenistan, Latvia (men) and Uzbekistan (women) – while the lowest rates are found in Japan, France, Mexico (men) and Canada (women).

By contrast, cancer is responsible for 30 per cent or more male deaths in France, Italy, Japan and the Netherlands but for fewer than 10 per cent in central Asia. For women, the *highest mortality rates from* cancer are found in Britain, Canada, Netherlands, New Zealand and Switzerland.

In a special analysis, the WHO report notes that in almost all the 15 former Soviet republics male life expectancy at birth has fallen below 1981 levels. For Russian men it plunged to only 57.7 years in 1994 from 64 years in 1990, which compares with the 1994 average for eastern Europe *of 63.8 years and 73 years* for western Europe and North America.

Life expectancy in developed regions

	women	men	difference
Eastern Europe	74.1	63.8	10.3
Northern Europe	78.7	72.7	6.0
Southern Europe	79.3	73.0	6.3
Western Europe	79.7	73.0	6.7
Northern America	79.4	72.7	6.7
Australia/New Zealand	80.3	74.3	6.0

Source: United Nations

Russian men are dying earlier not only from heart disease and other illnesses often linked to stress and excessive drinking and smoking, but also from what the WHO calls "external causes" including accidents, murder and suicide.

In many of the former Soviet republics "external *causes" are the third most* important cause of death after circulatory system disease and cancer. Thus Russia, Lithuania and Latvia have the worst male suicide rates among the WHO reporting countries, the highest rates for women being found in Hungary, Estonia and Latvia.

However, Latin countries confirm their reputation as having the world's most dangerous drivers. More than 3 per cent of men in Italy, Mexico, Portugal and Spain die in traffic accidents, compared with fewer than 1 per cent in Finland, the Netherlands, Ukraine and the United Kingdom.

1995 World Health Statistics Annual, WHO Sales Division, CH-1211 Geneva 27, fax +41 22 791 4857, e-mail brodierc@who.ch, SFr150 (SFr105 in developing countries).

Young men in Kalemie, Zaire, queue to join the rebel army fighting the Mobutu regime AP

Egypt to put Israeli on trial for spying

An Israeli man must stand trial in Egypt with three other people on charges of spying for Israel and damaging Egypt's interests, Reuter reports from Cairo.

The case of Azam Azam, 35, chief mechanic at an Israeli-owned factory in Egypt who was arrested in November, has caused friction in Egyptian-Israeli relations. Israel said he was innocent and appealed for his release but President Hosni Mubarak said that he could not interfere with the legal system.

The other defendants are a 34-year-old Egyptian, Emad Abdelhamid Ismail, and two Israeli women who are not in Egypt – Zahra Youssef Greiss and Mona Ahmed Shawahna.

Egypt's prosecutor general on Monday referred the four to trial and issued the charge sheet, which says Ismail agreed to help the two women spy for Israel's intelligence service Mossad. The prosecution alleged that Ismail worked with Mossad from March to last October.

Greiss, with whom he was having an affair, according to the prosecution, gave Ismail $650 when he was recruited and Shawahna offered to pay him $1,000 per month if he helped Mossad, the charge sheet said.

Azam's alleged role in the espionage case was to deliver to Ismail women's underwear inscribed with invisible ink. The prosecution has not said what kind of information Israel was seeking.

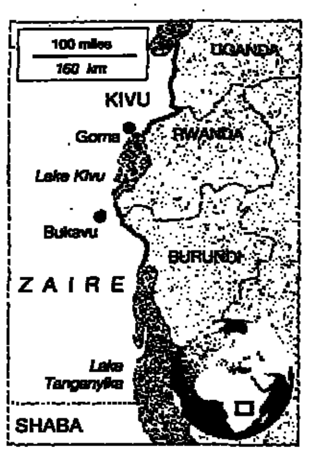
The charge sheet said Azam and Ismail had both confessed to the charges. But Azam denied the espionage charges when he first appeared in court in December.

The charge sheet said that Ismail told interrogators he was recruited when he went to Israel last February to train at a women's garments factory.

Defiant Zaire leader bombs rebel-held town

By Michela Wrong

The Zaire government, under increasing pressure to negotiate terms with Tutsi-led rebels who hold a 900-mile swathe of land in the east, yesterday signalled its continuing defiance by bombing the guerrilla-held city of Bukavu.



The raid by two government jets, the first aerial attack since the Alliance of Democratic Forces launched its campaign last October, sent explosions echoing across the lakeside city and residents fleeing into the bush. An aid worker in the town said at least six people were killed.

It was apparently aimed at doing serious psychological and physical damage to the rebel movement before its leader, Mr Laurent Kabila, launches an expected onslaught on Kisangani, Zaire's third largest city.

Mr Kabila has given President Mobutu Sese Seko until February 21 to begin talks on stepping down and he is widely expected to attack Kisangani, headquarters for the army's operations, once that deadline expires.

Despite recruiting foreign mercenaries, importing new jets and helicopters and flying in thousands of fresh troops, Mr Mobutu has so far failed to dent the rebel advance. But the government nevertheless yesterday ruled out a ceasefire with "unidentified belligerents", reiterating its long-stated claim that the rebels were being propped up by the regular armies of Uganda, Rwanda and Burundi.

With each passing day, the likelihood grows that the fighting will encompass the Tingi-Tingi camp to the south-east of Kisangani, where around 150,000 Rwandan refugees pushed west by the fighting are trapped. With food deliveries held up by Zairean red tape and transport problems, up to 30 people a day are already dying of hunger and disease.

Mr Kabila has twice threatened to attack the camp, which the UN says is being used as a recruitment centre for the government.

Mr Mohamed Sahnoun, the UN special envoy, flew at the weekend to Gbadolite, the isolated equatorial village which is home to Mr Mobutu, to urge the president to stem the flow of arms into Tingi-Tingi.

But the tone of yesterday's government statement made it clear that the talks had been fruitless. Mr Kamanda wa Kamanda, the foreign minister, accused the UN of ignoring Zaireans displaced by the fighting and preferring to dwell on the problems of refugees.

Clive Cookson reports from the American Association for the Advancement of Science in Seattle

Eureka – there might be life on Europa

Forget Mars. The place to look for extraterrestrial life in the solar system is Europa, the second moon of the giant planet Jupiter.

That was the view of planetary scientists, geologists and biologists speaking to the American Association for the Advancement of Science in Seattle yesterday.

As Mr Eugene Shoemaker of the US Geological Survey put it: "Europa looks like the only other place in the solar system with an ocean. If you're looking for life, that's where I put my chips."

Developments in two fields that had nothing in common until very recently – space science and oceanography – are focusing scientific attention on Europa.

Space scientists have concluded, on the basis both of theory and of observations by the Voyager and Galileo spacecraft, that Europa has an ocean of liquid water 100km to 200km deep, beneath an ice crust 10km to 20km thick. And, most significantly, they believe that Europa has volcanic activity on its ocean floor.

At the same time, exploration of the sea floor on Earth has shown that active submarine volcanoes support "chemosynthetic life" – organisms that derive all their energy and nutrients from within the planet, without needing anything from the sun. These range from giant tube worms down to microbes that live on volcanic hydrogen sulphide.

Ocean explorers such Mr Robert Ballard, director of the Institute for Exploration in Connecticut, expressed enthusiasm for the new interplay between their work and planetary science.

Mr Ballard told the meeting: "We are moving away from manned submersibles and are now seeing a tremendous advance in robotic systems, which might eventually be transportable to Europa."

Professor John Delaney of the University of Washington, Seattle, described plans to establish an unmanned sea-floor observatory off the Pacific north-west coast, with networks of instruments to collect information about hydrothermal biology. It would test hypotheses about how life might start and develop on the ocean floor of other planets.

More immediately, the scientists are expecting Galileo, which is still in orbit around Jupiter, to send back further observations of Europa over the next month. They are particularly keen to confirm tantalising signs of slushy patches on the moon's icy crust, which would suggest that water exists close to the surface in places.

Nasa, the US space agency, is already planning a series of missions to Europa early in the next century. Mr Steven Squyres, who chairs the planning committee, said the first would be an orbiter to map Europa and determine the thickness of the ice crust and the ocean beneath; the second would land on the ice and the third would drill through the ice to take a sample of the water beneath.

Meanwhile the scientists plan to develop new ice drilling techniques on Earth. Their target is a body of water called Lake Vostok, 4km beneath the Antarctic ice cap. Conventional drilling is not suitable because it would contaminate the pristine water.

"The first discovery of life on another planet is going to be a profound event in the history of human culture," Prof Delaney concluded. "It is likely to happen within the lifetime of some of the younger folk in this room."

Testing time for tasters

Dr Linda Bartoshuk gave everyone in her audience an identical paper disc to taste. Some people spluttered in horror at the intense bitterness, most were moderately disgusted, and some tasted nothing as they chomped on the paper.

Their reactions had divided them into "super-tasters, tasters and non-tasters," said Dr Bartoshuk, a taste researcher at Yale University, told the American Association for the Advancement of Science.

Super-tasters have a special genetic sensitivity to the bitter chemical on the paper, called PROP. Non-tasters cannot detect it at all.

New research shows that the PROP reaction is an extreme case of an inherited variation in the sense of taste as a whole, Dr Bartoshuk and colleagues told the meeting.

Although super-tasters are especially sensitive to bitterness, they also react more strongly than non-tasters to other tastes – sweet, sour and salty – and to hot and spicy foods.

It is easy to divide people into genetic taste categories by examining their tongues, said Dr Valerie Duffy of the University of Connecticut. Super-tasters have many more taste buds than non-tasters, while normal tasters have an intermediate number.

Dr Bartoshuk believes that a single gene determines taste sensitivity, though it has not yet been identified.

However sex also plays a *role, perhaps because the* female hormone oestrogen interacts with taste receptors and makes women more sensitive. Among white Americans, 35 per cent of women and 10 per cent of men are super-tasters.

Scientists are beginning to relate taste sensitivity to diet and health.

Dr Adam Drewnowski of the University of Michigan found that women super-tasters tend to avoid fruit and vegetables that are important for preventing cancer – including broccoli and Brussels sprouts, grapefruit and various berries and root vegetables – because they find them too sharp or bitter.

Republicans gain bigger share from abroad

US parties see 'soft funds' soar

By Patti Waldmeir in Washington

The Democratic and Republican parties precipitated an explosion in political fundraising in the 1996 US election campaign, raising nearly three times as much in largely unregulated "soft money" contributions as in the 1992 campaign, according to a research report released yesterday.

The new figures will fuel the growing controversy over the role of money in US politics. Committees of both the House and Senate are investigating campaign fund-raising in the last election. The chairman of the House investigative committee said at the weekend that his probe would be much broader than originally planned.

The report, from the Washington-based Center for Responsive Politics, a non-partisan research group, uses official figures from the Federal Electoral Commission to show that the two parties raised an unprecedented $263.5m in "soft money" donations for the 1996 poll. These funds are not subject to the federal ceilings imposed on donations to candidates, because they are meant to be used for so-called "issues advocacy" and for party-building activities.

But these restrictions proved largely a fiction during the campaign, with television "issues advertisements" focusing blatantly on candidates and even using the same footage for advertising both candidates and issues.

The bold pursuit of cash by the two parties has prompted a public backlash, with citizens' groups saying political fundraising has got out of hand. The most virulent public commentary has focused on donations by foreigners, with the Democratic party bearing the brunt of the criticism.

But the new report shows that Republicans collected a larger share of "soft money" foreign contributions than Democrats. These contributions are not illegal – the law permits donations by permanent residents or US affiliates or subsidiaries of foreign companies – but they have come to be considered improper.

Some $6.44m in what the report calls "apparently legal" contributions were made by US affiliates of foreign companies, with $4.07m going to Republicans and $2.38m to Democrats. The Democratic National Committee has stopped accepting money from such companies.

The top soft-money donors to the Republican party came from the tobacco industry, which is fighting the Clinton administration's plan for greater tobacco regulation. Philip Morris and RJR Nabisco were the biggest donors.

PRI is no longer the only party in town

As Mexico's ruling party cannot satisfy members' ambitions, disappointed candidates join the opposition, **Leslie Crawford** writes

The two brothers were destined for brilliant political careers. Born into a wealthy provincial family, José and Fernando Ortiz Arana read law at university, the only acceptable profession for aspiring Mexican politicians, and, 30 years ago, joined the all-embracing Institutional Revolutionary party (PRI), which has ruled Mexico since 1929.

José, the elder, became a congressman, led his party in Querétaro, his home state, and was appointed the PRI's trouble-shooter when the party began losing state elections, for the first time ever, in 1989.

Fernando, the younger sibling, was even more successful. He was named speaker of Congress in 1991, enjoyed a brief spell as national leader of the PRI in 1993, and became leader of the Senate following the 1994 general elections.

Earlier this month, however, the two brothers had a falling out which many Mexicans have come to regard as a metaphor for the growing discord within the heart of the PRI family.

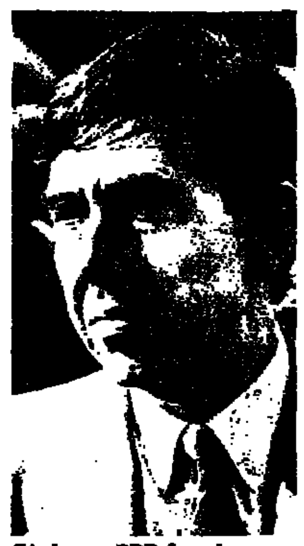
On February 8, Fernando, the senator, accepted the party's "unanimous" nomination to be the PRI's candidate for state governor in elections to be held in Querétaro in July.

A few blocks away, José was angrily tearing up his party membership card. He had campaigned ardently for the nomination, and had lost to his brother in the backroom deals that decide every nomination at the PRI's headquarters in Mexico City.

"Numerous groups within the PRI had offered me their support," Mr José Ortiz Arana protested to Mr Humberto Roque Villanueva, PRI president. "Nevertheless, you chose to ignore the wish of the party rank-and-file to impose a decision that was totally out of keeping with democratic practices."

Mr José Ortiz Arana is only one of several PRI luminaries who have resigned in recent months. The disgruntled leaders have taken thousands of lower-ranking party activists in a wave of defections not seen since 1987,

Zedillo: unpopular



Cárdenas: PRD founder

when Mr Cuauhtémoc Cárdenas, a frustrated presidential hopeful, took his followers into a new left-wing opposition party, called the Party of the Democratic Revolution (PRD).

Election years have always caused tension within the PRI, but the selection of candidates this year has been more acrimonious than usual.

At stake are six state governorships, the entire 500-seat Congress and one third of the Senate, as well as the mayorship of Mexico City, which will be put to a popular vote for the first time in July.

Almost every defection has been triggered by the PRI machine's inability to accommodate personal political ambitions.

Privatisation has done away with most of Mexico's state sinecures, while the electoral triumphs of the opposition in a growing number of states and municipalities have also diminished the PRI's powers of patronage.

Ms Layda Sansores, the PRI senator for Campeche, triggered the wave of defections before Christmas when it became clear she would not be chosen to contest the governorship in her oil-rich state.

She joined the PRD, which was more than willing to let her stand as its candidate in the July elections.

In Nuevo León, the industrial bastion of northern Mexico, the PRI ran roughshod over the wishes of the local party by imposing a candidate for governor. Mr Luís Eugenio Todd, a former ambassador, university rector and leading PRI elder in the state capital, Monterrey, resigned from the PRI to contest the governorship for the small Workers' party.

More resignations have followed, including those of retired army generals, national congressmen and two former state governors.

Every defector, without exception, describes himself or herself as a true democrat who fought tirelessly to reform the inner workings of the PRI before giving up the struggle as a lost cause.

"When I realised that the PRI would not change, I decided to look for a political party committed to democracy, honesty and real political change," says Mr José Ortiz Arana, who joined the PRD this month and hopes to be its candidate in the Querétaro elections in July.

"People are fed up with corruption, with enrichment taken to the extremes of cynicism," he added. "If the PRI does not realise this, it will lose the presidency and the country."

The PRI has responded to the defections by hardening its political discourse, but also by opening the selection process in Mexico City, where three candidates are competing for the PRI nomination for the mayorship race: Mr Alfredo del Mazo, a former state governor; Mr José Antonio González Fernandez, the state attorney for Mexico City; and Mr Manuel Jiménez Guzmán, a local politician.

The internal contest, to be decided tomorrow by a 200-member electoral college of PRI notables, is being depicted as a democratic concession to the reformists within the party. Others see it as an empty gesture.

Opinion polls show an opposition candidate will almost certainly win the mayorship, given the depth of popular discontent with President Ernesto Zedillo's government. The prospect of defeat may explain why no high-ranking PRI politician has volunteered to fight for the capital.

AMERICAN NEWS DIGEST

Deal with GM supplier's union

The United Auto Workers reached a tentative contract with American Axle & Manufacturing, a key supplier to General Motors, shortly before a 7am strike deadline yesterday, a union spokeswoman said yesterday.

The last-minute agreement covering 7,200 UAW members at five plants in the US averts a strike that would have shut down GM's 11 North American light truck plants.

Terms of the deal were not immediately available, but members were likely to vote on the deal later this week, the union said. The company makes rear axles for GM's pickup trucks and sport utility vehicles, axles for rear-drive saloons, and parts for other passenger cars. It also makes axle shafts for Ford and a small number of parts for Chrysler. *Reuter, Detroit*

Bahamas poll date named

Mr Hubert Ingraham, prime minister of the Bahamas, has called a general election for March 14, six months before the vote is due. Mr Ingraham said that if he was returned to office, it would be his last in politics.

The incumbent Free National Movement will be challenged by the Progressive Liberal party led by Sir Lynden Pindling, who was the prime minister for 25 years until the PLP lost the 1992 election to the FNM.

The election will follow a year of economic expansion, estimated at 3 per cent, in the archipelago of 250,000 people. The growth was in tourism and financial services, the main pillars of the economy.

Hours after Mr Ingraham announced the election, the police reported the murder of Mr Chuck Virgill, the junior housing minister. No political motive is suspected and three men are being questioned. *Canute James, Kingston*

Colombian strike talks

Colombian union leaders and government officials were close to a deal yesterday to end a seven-day public sector strike after all-night negotiations.

Talks, which began just before midnight on Sunday, were due to resume yesterday, as representatives said that both sides were now very close.

The government has already agreed that employees who took part in the strike will not be penalised when they return to work, union leaders said. The main sticking point was the scope of planned privatisations of regional and national industries.

State workers initially called the strike to press for a 21.5 per cent wage rise, compared to the government's below-inflation offer of a weighted 13.5 per cent.

A deal, however, would not necessarily lift the threat made on Sunday by the main oil workers' union, the USO, to shut down the state-run oil industry. The USO, besides backing the national, public-sector strike, is involved in parallel talks with the state-run Ecopetrol over a new collective contract. *Reuter, Bogotá*

Rebels set for demobilisation

Preparations for the demobilisation of Guatemala's 3,000-strong leftwing rebel forces are nearing completion in fulfilment of the treaty signed on December 29 formally ending 36 years of armed conflict.

URNG guerrilla columns are congregating in six special camps ready for March 3, when the 60-day disarmament process overseen by the UN is due to begin.

The last contingent of the 155-member UN military observer mission drawn from 17 countries and under the command of Spanish General José Rodriguez is due to arrive in Guatemala early this week.

As well as receiving the weapons the rebels accumulated during their years in the mountains, the unarmed Blue Berets will be charged with verifying that the guerrillas remain in the camps and that the local army respects a 6km exclusion zone around these areas.

Most local analysts expect the disarmament process to run smoothly as guerrilla leaders are impatient to enter the legal political arena and most ex-combatants have given up their dreams of revolutionary change through military victory. *Johanna Tuckman, Guatemala City*

Sharif urges Indian peace talks revival

By Farhan Bokhari in Islamabad

Mr Nawaz Sharif, Pakistan's newly elected prime minister, yesterday called on India to revive stalled peace talks between the two countries.

In a conciliatory gesture in his maiden speech after being sworn in, he said: "We will take one step forward, and I am sure India will do the same; then we can sit down to settle our issues."

Mr H.D. Deve Gowda, India's prime minister, said he had noted "positive statements" by the new Pakistani leader, adding that New Delhi believed co-operation would benefit the people of both nations. "To this end, we seek an early resumption of dialogue between our two countries, at appropriate level."

Mr Sharif's electoral victory earlier this month has raised expectations the two sides may soon resume peace talks disrupted in 1994, largely because of differences over Kashmir. The two countries have fought three wars against each other since partition in 1947, two over Kashmir.

In his speech, Mr Sharif urged India to "stop atrocities" in Kashmir, and to "withdraw 500,000-600,000 troops from Kashmir that have been shedding the blood of unarmed Kashmiris".

While India considers Kashmir an internal affair, Pakistan wants the people of the territory to choose between aligning with either of the two countries.

Diplomats say Mr Sharif's offer may be the result of growing economic difficulties in Pakistan, which have forced the new government to try to hold down military spending, already swallowing 26 per cent of this year's budget.

After administering the oath of office to Mr Sharif, President Farooq Leghari, advised the new government to cut spending and improve revenue collection and foreign exchange reserves "to get Pakistan out of a crisis-like situation". Pakistanis had to be prepared for another year of belt tightening.

Pakistan is being pressed by the IMF to cut its budget deficit to 4 per cent of gross domestic product this year from 6.3 per cent last year.

Some of the unpopular measures in the past six months have included a first-ever income tax on agriculture and the expansion of a VAT-style goods and services tax on a large range of everyday items.

Mr Sharif's new cabinet is likely to be unveiled over the next few days; the finance portfolio is expected to go to Mr Sartaj Aziz. Mr Aziz held the same job in the earlier Sharif administration which was thrown out in 1993 amid allegations of misrule and corruption.

Stand-off in Beijing could last months

By Tony Walker in Beijing and John Burton in Seoul

The diplomatic stand-off in Beijing over the defection of a top North Korean official could last for months and fray relations between China and South Korea, a western official said yesterday.

"This could go on for perhaps three to four months while they work something out," the official said.

Mr Hwang Jang-yop, a senior adviser to Mr Kim Jong-il, North Korea's leader, marked his 74th birthday yesterday sheltering in South Korea's consular office, where he sought asylum last Wednesday.

North Korea has demanded his return and accused South Korea of kidnapping. China has been embarrassed by the episode, fearing it may destabilise the Korean peninsula further.

Beijing is also concerned that Mr Hwang's defection may herald other attempts by senior Pyongyang officials to seek asylum in China, adding to tensions with North Korea.

Mr Hwang was reported by Seoul state radio yesterday as having told a US Central Intelligence Agency official that up to seven officials of North Korea's ruling Workers' party wanted asylum.

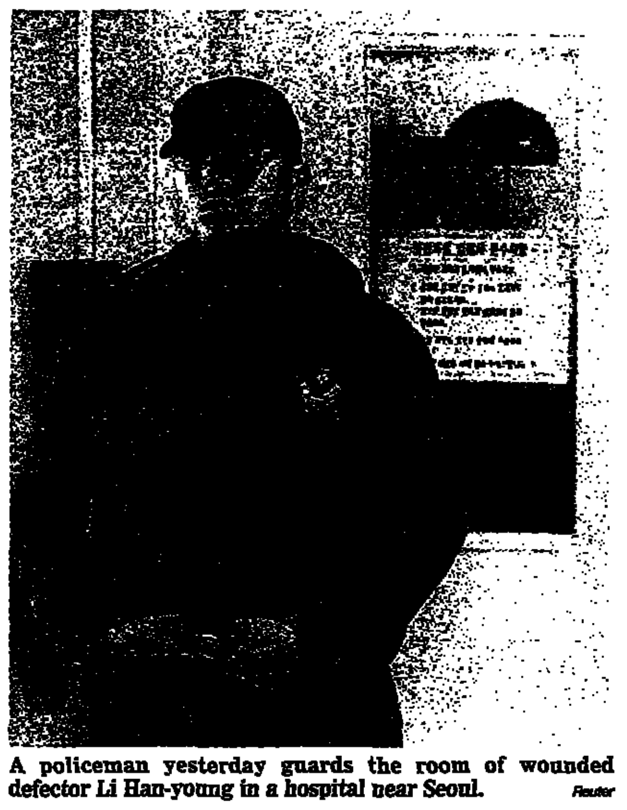
Chinese security around South Korea's mission in Beijing is tight, to prevent North Koreans retrieving Mr Hwang. North Korean officials have mounted a vigil near South Korea's visa office and have said they will not allow the defector to be spirited away.

China's state-controlled media has kept silent about the defection and the ensuing diplomatic stalemate. Newspapers have reported meetings between Chinese and South Korean officials, but have ignored the main topic of those conversations.

Beijing is caught between North Korea, long a communist ally, and South Korea which is becoming an important trading partner and source of investment.

South Korea said yesterday it would support international food aid relief for North Korea and continue co-operation on a joint nuclear project despite the shooting of a North Korean defector in Seoul that has put the nation on a terrorist alert against Pyongyang.

The weekend shooting of Mr Li Han-young, distantly related to North Korea's leader Kim Jong-il, is seen in Seoul as a revenge attack by Pyongyang for the apparent defection of Mr Hwang.



A policeman yesterday guards the room of wounded defector Li Han-young in a hospital near Seoul. Reuter

Despite the rise in inter-Korean tensions, Seoul plans to contribute $3m to a UN appeal for food aid to North Korea, said Mr Ban Ki-moon, Seoul's senior presidential security secretary. But it would not provide direct food aid, as it has previously.

South Koreans will be included in a 30-member survey team scheduled to arrive in North Korea on Saturday to prepare the construction of light-water nuclear reactors.

The team from the Korean Peninsula Energy Development Organisation, led by South Korea, Japan and the US, is building the reactors in return for North Korea's freezing of its weapons-grade nuclear programme.

Mr Yoo Chong-ha, South Korean foreign minister, said Seoul would step up efforts to hold peace talks with North Korea as the best means to "control the volatile situation" on the Korean peninsula.

The proposed talks would include the US and China, both of which have urged renewed contacts between Seoul and Pyongyang to solve the dispute over the fate of Mr Hwang in Beijing.

Seoul warns on first-quarter dip in growth

By John Burton

South Korea's finance and economy ministry yesterday warned that growth in the first quarter could dip below 4 per cent, making it hard to achieve a goal of 6 per cent growth for 1997.

The sluggish growth in gross domestic product, representing almost a recession by South Korean standards, was blamed on labour unrest and the collapse of the Hanbo steel and construction group last month.

The government fears the economic slowdown could result in increased corporate bankruptcies, a rise in unemployment, a wider trade gap after a record current account deficit in 1996, and increased capital costs abroad.

If labour strife flares again before the end of March, GDP growth in the first quarter could be below 3 per cent, the ministry estimated. Last month, South Korea was hit by widespread strikes, which cost $3.3bn in lost production, in protest at a new labour law that made it easier for employers to sack workers.

Industrial action subsided by the end of January when the government agreed to resubmit the bill to parliament for possible amendment. But strike activity could resume if no progress is made on the issue.

South Korea's biggest dissident trade union group has agreed to postpone a general strike scheduled for today, but has warned that further walk-outs could occur at the end of the month.

Analysts fear recent tensions in labour-management relations could lead to a new round of strikes affecting key companies next month, when annual wage negotiations begin.

The ministry estimated recent strikes had knocked 0.68 percentage points off GDP growth in the first quarter, or 0.15 percentage points from the annual rate.

Renewed labour unrest of the same intensity as that in January would reduce first-quarter growth by 1.8 percentage points to below 3 per cent, or about 0.4 percentage points on an annual basis.

Private economic institutes in Seoul have already revised downward their economic forecasts to growth rates of between 5 and 6 per cent for 1997.

They are blaming several factors for the slowdown, including investment cuts among leading manufacturers in response to sluggish growth in exports, which contributed to a record current account deficit last year of nearly $24bn.

ASIA-PACIFIC NEWS DIGEST

Thailand plans $500m bond

Thai financial authorities, struggling to calm jittery financial markets and control speculative attacks on the baht, said yesterday they would proceed with a planned $500m Yankee bond issue that will see finance minister Amnuay Viravan embark on a crucial international road show.

Mr Amnuay will visit Hong Kong next week, and trips to London and New York are also possible, ministry officials said. While abroad he will seek to counter the latest bad news to hit Thailand – last week's announcement by Moody's, the credit-rating agency, that may downgrade Thailand's A2 long-term foreign currency debt rating.

Mr Amnuay is to argue that there is a difference between the Thai government and the private sector with respect to foreign debt, indicating that the private sector was under some strain, but government finances were healthy.

Spreads on Thai government-backed paper traded on international markets have widened only slightly since Moody's announcement, while last week a Thai-led consortium of power producers received 15-year dollar-denominated finance to build a power plant.

On the Thai stock exchange the finance sector fell 4.95 per cent yesterday, while the overall market dipped just 5.28 points to close at 708.20. *Ted Bardacke, Bangkok*

HK to expand rail network

The Mass Transit Railway Corporation (MTRC), Hong Kong's underground train system, is to speed up to HK$35bn (US$4.5bn) building two new lines to accommodate increased passenger projections. One of the lines will serve heavily populated residential areas on the Kowloon peninsula and the other will link the northernmost point of Hong Kong island with the new airport link station in the prime central district.

Work on the lines must start by 2002 to meet the completion date of 2006 when the Hong Kong island line reaches saturation point. *Louise Lucas, Hong Kong*

Manila sell-offs total $6.6bn

The Philippine government has raised 174bn pesos ($6.6bn) in privatisation proceeds over the past decade, according to the government. The figures offer some consolation to the Ramos government, which has faced problems in its efforts to press ahead with privatisation of Subic Bay, the Manila water system and the Manila Hotel.

The government's privatisation programme was drawn up in late 1986 with the establishment of the committee on privatisation following the removal from power of President Ferdinand Marcos. The Ramos government is now starting on the second wave of privatisation covering the water and power sectors.

The committee on privatisation said that 445 government assets and companies had been privatised since 1986, of which the 214 hectare Fort Bonifacio military estate, at 39bn pesos, was by far the largest. Petron, the oil group, was the second largest at 25bn pesos. *Justin Marozzi, Manila*

Japan to shut big coal mine

Mitsui Coal and Mining, Japan's largest coal producer, yesterday confirmed it planned to proceed with the closure of the country's largest remaining mine at the end of March.

The group announced the move after obtaining its three labour unions' agreement to the closure of the Miike mine in the southern prefecture of Fukuoka, in return for fresh jobs plus a retirement allowance for all 1,170 miners there.

Union leaders said they agreed in principle but would continue to negotiate on terms. Mr Shinji Sato, minister for international trade and industry, said the government would offer a regional subsidy to "back up the company to facilitate a smooth closure".

The closure of the 124-year-old pit will leave Japan with only two working mines. The shutdown was triggered partly by the mine's growing losses – an accumulated total of Y73bn ($587m) – and power companies' growing unhappiness at having to pay government-set prices for domestic coal, three times as much as for imported fuel. *William Dawkins, Tokyo*

Malaysia appeal court clears way for dam project

By James Kynge in Kuala Lumpur

A Malaysian court yesterday upheld an appeal by the developers of south-east Asia's biggest dam, clearing the last legal obstacle for the controversial US$5.4bn project.

Mr Ting Pek Khiing, executive chairman of Ekran, the dam's developer and controlling shareholder, said the dam would be finished on schedule in 2003, "or maybe a year earlier".

Asea Brown Boveri, Swiss-based engineering group, is main contractor for the 2,400MW hydroelectric dam in Sarawak on Borneo Island. Malaysia's high court ruled last year that environmental studies for the dam were invalid, mainly because they were approved by Sarawak authorities when they should have been passed by the environment ministry in Kuala Lumpur. Sarawak's state government is to be a large shareholder in Bakun Hydro-electric Corp, the company which will operate the dam.

But in the Malaysian Court of Appeal, a judge found the high court decision misguided and that the Sarawak authorities did have the right to approve the project.

He said the misconception had arisen because people thought the Environmental Quality Act in the federal constitution, which regulates environmental studies, applied to the whole country.

But it did not apply in Sarawak, which is regulated by laws which sometimes differ from those in mainland Malaysia.

The dam will require clearing 69,000 hectares of rainforest, flooding an area the size of Singapore and displacing 9,500 tribal residents. This has made it the object of many protests. But the support the project has received from Dr Mahathir Mohamad, the prime minister, has helped overcome such obstacles.

Ekran's share price rose 15 cents to M$9.40 (US$3.80) yesterday. The court ruling is expected to boost confidence in the listing of Bakun Hydro-electric Corp's shares, scheduled for June. The company plans to raise M$5bn from a first tranche of 1.5bn shares at M$2 each, followed by another of 1.5bn shares for issue 12 months later.

Macao looks to a smoother transition than Hong Kong

It takes just one hour from Hong Kong to Macao by jetfoil across the green and brown waters of the Pearl River Delta. But when it comes to the issue of their handover to China, the British colony and the Portuguese enclave are far apart.

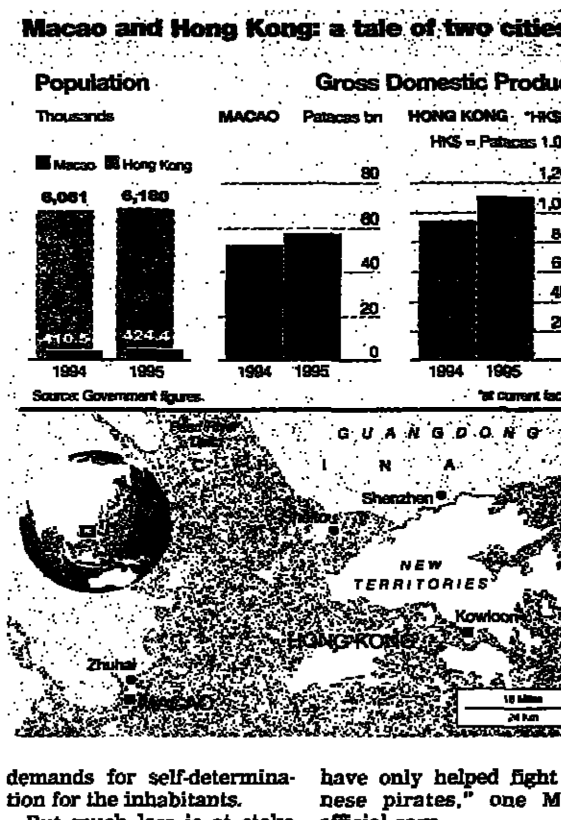
Mr Jorge Sampaio, Portugal's president, arrives in Macao today on his way to Beijing for further talks on what have been smooth and generally gentlemanly arrangements concerning the territory's return to China in December 1999.

There have been few of the rows which have shaken Sino-British relations over Hong Kong, most recently in exchanges over China's plans to curb laws protecting civil rights there.

"We are going to transit more smoothly than Hong Kong, because we have better relations between Portugal and China," says Mr Victor Ng, a businessman and member of Macao's legislature. "We do not have problems with democrats or Mr Patten," he adds, referring to the Hong Kong governor whose political reforms have drawn Beijing's wrath.

The contrast has many causes. Lisbon has taken a relatively conciliatory stance, negotiating each step with the Chinese and not moving before agreement. This partly reflects a concern for a quiet departure.

It also points to a desire to erase the memory of Portugal's colonial misfortunes in Africa, also because successful handling of Macao might help resolve the thorny issue of East Timor, where Portugal is locked in dispute with Indonesia over Lisbon's demands for self-determination for the inhabitants.



But much less is at stake than in Hong Kong. Macao's economy, which depends on the casino industry and related services, pales alongside the financial powerhouse across the waters.

Portuguese business has a relatively low profile compared with the 1,000 British companies operating in Hong Kong and accumulated UK investment of more than £70bn ($116.6bn).

While Macao has more history, having been settled by Portugal in the 16th century, there is less historical baggage. Portugal and China have not fought a war: "We have only helped fight Chinese pirates," one Macao official says.

On the tactical front, Portuguese diplomats and Macao businessmen claim there is little point acting without accord. They point to the Sino-British spat over electoral reforms and the result that the territory's elected legislature will be scrapped and replaced on July 1 by another body.

Their diplomacy, they claim, has yielded lasting agreements, such as a criminal code which bars capital punishment in Macao. "Since we reached it through full consultation with the Chinese, it will be upheld after 1999," says Mr Nuno Calado, director of the law translation department.

But for all this co-operation, it is far from plain sailing for Macao on its voyage back to China. Problems remain over issues such as travel rights for 80,000 ethnic Chinese who hold Portuguese passports and the future of a private foundation, partly funded by gambling revenues, through which business groups hope to retain influence.

Above all looms the question of whether Macao will be equipped to look after itself once its Portuguese administrators have gone.

One important problem is the lack of localisation in the civil service. "Hong Kong has done much better," says Mr Stanley Ho, head of Macao's casino industry and the territory's dominant businessman. "Even today, there is not one under-secretary in Macao who is Chinese."

The lack of political rows, some Macanese claim, betrays a lack of political defences. "There is nothing to protect us after 1999," says Mr Ng Kuok Cheong, a social worker and legislator. Others claim China is already running the enclave.

In a much broader sense, the fortunes of the two territories are tied. Macao remains dependent on the influx of Hong Kong tourists and funds. So despite the different diplomatic paths of London and Lisbon, what happens in Hong Kong under its new ruler will shape Macao's destiny.

John Ridding and Peter Wise

INTERNATIONAL ECONOMIC INDICATORS: PRODUCTION AND EMPLOYMENT

Yearly data for retail sales volume and industrial production plus all data for the vacancy rate indicator are in index form with 1985=100. Quarterly and monthly data for retail sales and industrial production show the percentage change over the corresponding period in the previous year, and are positive unless otherwise stated. The unemployment rate is shown as a percentage of the total labour force. Figures for the composite leading indicator are end-period values.

UNITED STATES

	Retail sales volume	Industrial production	Unemployment rate	Vacancy rate indicator	Composite leading indicator
1986	105.6	100.1	6.9	98.4	95.6
1987	108.5	105.8	6.1	104.2	96.7
1988	113.0	110.5	5.4	104.9	100.3
1989	115.5	112.5	5.2	97.9	98.9
1990	116.2	112.3	5.5	82.7	94.6
1991	113.3	110.1	6.8	61.7	99.5
1992	117.0	113.6	7.4	61.8	104.4
1993	122.2	117.5	6.8	67.7	109.5
1994	129.6	123.4	6.0	79.0	111.3
1995	133.8	127.4	5.5	79.3	111.3
1996		130.9	5.4	77.1	117.1
1st qtr.1996	4.0	1.2	5.6	78.1	113.3
2nd qtr.1996	4.2	2.9	5.4	76.3	115.4
3rd qtr.1996	3.6	3.0	5.2	76.3	116.5
4th qtr.1996		3.8	5.3	77.8	117.1
February 1996	5.3	1.9	5.5	79.5	112.3
March	4.7	1.4	5.5	78.1	113.3
April	4.7	2.6	5.4	76.2	113.6
May	4.6	2.9	5.4	74.2	114.3
June	3.2	3.3	5.3	78.7	115.4
July	3.7	3.4	5.4	76.7	115.6
August	3.2	2.9	5.1	74.8	116.1
September	3.9	2.7	5.2	77.4	116.5
October	4.6	3.3	5.2	75.3	117.0
November	3.2	3.9	5.3	79.9	117.2
December		4.4	5.3	77.9	117.1
January 1997		4.8			

JAPAN

	Retail sales volume	Industrial production	Unemployment rate	Vacancy rate indicator	Composite leading indicator
1986	106.5	99.7	2.8	94.3	83.1
1987	113.8	103.1	2.8	108.3	90.9
1988	122.6	113.1	2.5	135.9	96.5
1989	132.6	119.7	2.2	147.0	98.4
1990	141.6	124.5	2.1	149.8	95.1
1991	144.5	126.8	2.1	144.2	91.9
1992	139.8	119.0	2.1	124.2	90.6
1993	131.7	113.6	2.5	106.6	95.8
1994	129.5	114.5	2.9	102.2	103.6
1995	128.5	118.5	3.1	106.5	108.1
1996	132.8	121.6	3.3	120.0	109.7
1st qtr.1996	5.8	1.1	3.3	110.7	108.2
2nd qtr.1996	3.2	0.6	3.5	116.8	108.9
3rd qtr.1996	1.4	3.9	3.3	122.4	109.3
4th qtr.1996	3.1	4.9	3.3	129.8	109.7
February 1996	5.5	3.2	3.3	114.6	108.1
March	5.8	−2.9	3.1	107.4	108.2
April	2.8	0.2	3.4	117.7	108.5
May	2.3	2.7	3.6	122.2	108.7
June	4.4	−1.1	3.5	110.3	108.9
July	−1.7	6.0	3.4	129.2	109.1
August	2.1	1.8	3.3	117.2	109.0
September	3.6	3.8	3.3	120.6	109.3
October	4.3	6.5	3.4	133.4	109.3
November	4.0	4.5	3.2	129.4	109.4
December	1.0	3.7	3.3	126.7	109.7
January 1997					

GERMANY

	Retail sales volume	Industrial production	Unemployment rate	Vacancy rate indicator	Composite leading indicator
1986	103.3	102.2	6.4	136.9	89.3
1987	107.4	102.6	6.2	149.5	89.9
1988	110.6	106.3	6.2	165.1	95.6
1989	114.2	111.4	5.6	219.5	97.7
1990	123.4	117.2	4.8	261.9	98.2
1991	130.7	118.0	4.2	297.9	95.0
1992	127.8	116.3	7.7	287.9	89.0
1993	121.9	109.2	8.9	229.0	94.9
1994	120.4	113.9	9.6	241.2	103.3
1995	120.9	115.7	9.4	268.1	109.6
1996	119.1	114.5	10.4	273.7	104.3
1st qtr.1996	−1.9	−4.1	10.3	272.4	100.1
2nd qtr.1996	−2.0	−1.9	10.2	281.9	100.6
3rd qtr.1996	−0.2	0.1	10.4	270.5	103.5
4th qtr.1996	−2.0	1.7	10.7	270.2	104.3
February 1996	−3.6	−7.5	10.3	288.8	100.3
March	−0.3	−3.4	10.4	283.8	100.1
April	−1.6	−2.1	10.2	283.0	100.3
May	−4.7	−2.8	10.2	281.3	100.6
June	0.5	−0.9	10.3	281.3	100.6
July	−0.3	−0.6	10.3	272.9	101.5
August	0.3	1.2	10.3	268.7	102.6
September	−0.6	−0.3	10.5	269.6	103.5
October	−2.1	0.9	10.6	269.6	104.8
November	0.4	0.7	10.7	270.4	104.6
December	−4.2	3.5	10.9	270.4	104.3
January 1997				265.4	

FRANCE

	Retail sales volume	Industrial production	Unemployment rate	Vacancy rate indicator	Composite leading indicator
1986	102.4	101.1	10.4	107.0	95.5
1987	104.5	103.1	10.5	117.2	95.3
1988	107.9	107.3	10.0	135.3	100.0
1989	109.5	111.3	9.4	160.6	99.7
1990	110.4	112.8	8.9	163.2	94.9
1991	110.3	111.4	9.4	128.2	96.2
1992	110.5	110.0	10.4	109.5	94.8
1993	110.7	105.8	11.7	90.0	98.3
1994	110.7	110.0	12.2	104.1	101.7
1995	110.5	111.8	11.6		97.3
1996	110.0		12.4		99.7
1st qtr.1996	0.7	−0.7	12.1		99.1
2nd qtr.1996	−1.0	−0.3	12.4		99.7
3rd qtr.1996	−2.3	1.4	12.5		101.3
4th qtr.1996	0.8		12.7		99.7
February 1996	2.9	−0.1	12.1		98.5
March	−1.0	−1.0	12.3		99.1
April	0.2	0.0	12.3		99.0
May	−2.3	0.0	12.4		99.1
June	−0.8	−1.0	12.4		99.7
July	−2.1	1.5	12.4		100.8
August	1.9	1.5	12.5		101.3
September	−6.7	1.1	12.6		101.3
October	4.2	1.8	12.6		101.2
November	0.0	2.2	12.7		100.4
December	−1.7		12.7		99.7
January 1997					100.3

ITALY

	Retail sales volume	Industrial production	Unemployment rate	Composite leading indicator
1986	106.8	104.1	10.4	94.5
1987	112.1	106.6	10.9	96.2
1988	107.9	114.2	10.9	100.6
1989	116.9	118.7	10.9	98.7
1990	114.4	118.0	10.3	95.4
1991	110.9	116.9	9.8	97.6
1992	116.9	115.4	9.8	94.7
1993	114.1	113.0	10.2	101.5
1994	107.4	119.9	11.1	103.5
1995	102.1	127.4	12.1	102.0
1996				
1st qtr.1996		−0.2	12.0	100.4
2nd qtr.1996		−1.7	12.0	100.7
3rd qtr.1996		−4.9	12.1	102.4
4th qtr.1996				
February 1996		−0.8	n.a.	101.0
March		0.0	n.a.	100.4
April		−3.8	n.a.	100.2
May		−1.9	n.a.	100.3
June		0.8	n.a.	100.7
July		−2.9	n.a.	101.2
August		−8.8	n.a.	101.9
September		−2.9	n.a.	102.4
October		−2.7	n.a.	102.9
November		−2.0	n.a.	103.4
December			n.a.	
January 1997			n.a.	

UNITED KINGDOM

	Retail sales volume	Industrial production	Unemployment rate =	Vacancy rate indicator	Composite leading indicator
1986	105.3	102.5	11.2	116.1	92.8
1987	110.8	106.5	10.3	141.1	96.6
1988	117.8	111.6	8.6	144.0	96.2
1989	120.1	114.0	7.2	124.3	94.6
1990	121.1	113.7	6.9	97.7	92.5
1991	119.4	109.5	8.8	68.6	95.1
1992	120.4	109.4	10.1	69.6	97.6
1993	123.9	111.8	10.4	76.5	104.5
1994	128.5	117.4	9.5	93.9	106.8
1995	129.9	120.4	8.7	107.5	105.2
1996	133.8	121.8		132.0	108.4
1st qtr.1996	2.1	1.2	8.3	112.3	107.0
2nd qtr.1996	2.8	1.1	8.3	121.3	107.6
3rd qtr.1996	3.4	0.7		139.7	108.1
4th qtr.1996	3.7	1.7		154.5	108.4
February 1996	2.1	1.0	8.4	111.0	106.8
March	2.2	1.1	8.3	115.2	107.0
April	2.3	0.8	8.4	115.4	107.1
May	2.4	1.6	8.3	120.2	107.3
June	3.6	1.0	8.3	128.2	107.6
July	2.3	1.2	8.2	133.8	107.7
August	4.3	0.3	8.3	137.8	108.0
September	3.6	0.5		147.5	108.1
October	4.2	1.5		152.6	108.6
November	4.1	1.6		156.2	108.6
December	2.8	1.9		154.8	108.4
January 1997				152.7	107.8

All series seasonally adjusted. Statistics for Germany apply only to western Germany. Data supplied by Datastream and WEFA. Retail sales volume: data from national government sources except Japan and Italy (value series deflated by OECD using CPI). Refers to total retail sales except France and Italy (major outlets only) and Japan (department stores only). Industrial production: data from national government sources. Includes mining, manufacturing, gas, electricity and water supply industries except Japan (mining and manufacturing only) and UK (also includes construction industries). Unemployment rate: OECD standardised rate which adjusts as far as possible for the different definitions of unemployment used in official sources. Vacancy rate indicator: relevant vacancy measure divided by total civilian employment, expressed in index form. Derived from OECD series. US – help-wanted advertising, Japan – new vacancies, Germany and France – all jobs vacant, Italy – no data available, UK – unfilled vacancies. Composite leading indicator: OECD data. Each is a combination of series, cyclical fluctuations in which usually precede cyclical fluctuations in general economic activity.

Components target at risk

Strong pound threatens VW purchasing

By John Griffiths and Haig Simonian

Britain's motor components industry is losing millions of pounds in potential business from Volkswagen, Europe's biggest carmaker, because sterling's strength is making the UK products uncompetitive, according to one of the company's senior purchasing executives.

Mr Frans Boot, head of VW's purchasing in the UK and Scandinavia, said at a motor industry conference in London yesterday that the group's target to triple purchases of parts in the UK to £1.5bn ($2.43bn) a year by 1999 – which had already been hit by many suppliers' failure to meet quality standards – would be even less feasible if the pound stayed at its present high levels.

Mr Walter Hasselkus, chief executive of BMW's Rover offshoot, warned at the same Financial Times conference that the company was considering buying more parts outside Britain if sterling remained high. Mr Hasselkus said Rover, bought by BMW in early 1994, had no immediate plans to switch suppliers, as the company had substantially hedged its currency exposure for the next 18 months.

However, he warned that eventual British participation in a European Union fixed exchange rate system at the current level of about DM2.75 to the pound "would be a problem".

Mr Boot said sterling's 24 per cent rise against the D-Mark in recent months had dimmed VW's hopes of increasing substantially its component purchases in the UK.

While he declined to put a firm figure on the foregone orders, they are believed to total several million pounds. However, he said currency hedging by VW meant the company still expected to increase its spending on British car parts to about £600m this year compared with £550m in 1996.

Mr Boot and Mr Hasselkus strongly backed the business case for Britain to join a single European currency. But, chastened by the political furore after comments from other motor industry leaders last month, they accepted the issue was complicated by wider economic and political considerations.

In January, Mr Hiroshi Okuda, president of Toyota Motor, Japan's biggest car company, warned that the company's investment strategy might change if the UK stayed out of European monetary union. Toyota has been one of the biggest inward investors in Britain in recent years.

Mr Boot said in an interview that much of the UK components industry's success in raising sales in recent years had been based on a competitive exchange rate. "At a rate of DM2.25 there is not the problem," he said.

Mr Hasselkus, describing the recent rise in sterling's value as "quite serious", indicated Rover's current export performance could eventually be hit; 54 per cent of output went overseas last year.

Mr Hasselkus indicated Rover had budgeted on a rate of DM2.35-2.40 last year. However, he noted that the company did not expect sterling to remain at its present high levels.

Both speakers emphasised the advantages for exporters of European monetary union, which would reduce currency risk and cut transaction costs. Volkswagen preferred stable exchange rates because decisions on components purchases ran many years into the future, Mr Boot said.

Panel aims at creative accounting

By Jim Kelly, Accountancy Correspondent

Listed companies face a crackdown on creative accounting after regulators yesterday signalled that they would not stand by and let a new wave of 1980s-style schemes flatter the performance of companies.

The Financial Reporting Review Panel was on the brink of going to court when Associated Nursing Services, the nursing home operator, said yesterday that it would amend its accounts.

Sir Neil Macfarlane, chairman of ANS, said that the panel's action had "far reaching implications" for "hundreds of companies in the UK which have entered into sale and leaseback transactions".

The panel would not comment. But it is known that its chairman, Mr Edwin Glasgow, wants the City of London to realise that such accounting schemes – which greatly enhance a company's gearing – can be in breach of the rules.

Merchant banks, accountants and auditors will see the panel's action as proof that it is prepared to defend the principle that a company's accounts should reflect the substance of a transaction and not just its legal form.

The ANS case is the first time the panel has looked at this principle – the centrepiece of the Accounting Standards Board's assault on creative accounting – and it has signalled that it is on the lookout for others.

ANS entered into a complex sale and leaseback agreement involving a nursing home in which not all the rights and risks were transferred to the purchaser, Nursing Home Properties (NHP). The panel said that the asset should, therefore, have stayed on the balance sheet.

It had also entered into two joint ventures – one with BZW, the investment bank. It had accounted for the ventures as an arm's length "associated undertaking" when in fact it had in effect kept control because operations were "predetermined" by contracts. It should have accounted for them as "quasi-subsidiaries" on the balance sheet.

ANS is to amend its accounts for 1995 and 1996, as it warned shareholders it might do in a note to its 1996 accounts.

It said the changes would have no material impact on profits before tax but that earnings per share would be "negatively impacted" in the current year.

Its share price fell 5.5 pence in London to £1.36.

Minister makes beef ban pledge

By George Parker, Political Correspondent

Mr Douglas Hogg, agriculture minister, yesterday said for the first time that he would "urge" the European Commission to lift the ban on beef exports in Northern Ireland before the rest of the UK.

Mr Hogg, speaking in the House of Commons, said that it seemed likely farmers in Northern Ireland would be the first to meet the criteria for a lifting of the ban. "We are not going to stand in the way of any part of the UK making progress," he said.

His comments pleased Northern Ireland MPs, but are likely to anger beef farmers in Scotland, who want the ban on exports from BSE-free herds lifted in all parts of the UK simultaneously.

Mr Hogg attempted to reassure Scottish farmers by insisting that he was seeking a lifting of the ban for certified grass-fed herds across the UK.

But he acknowledged that Northern Ireland might be able to move ahead first because its computerised cattle identification system already provided a good basis for locating BSE-free herds.

The Labour party had hoped to defeat the government in a vote of censure on Mr Hogg's handling of the BSE crisis late last night.

Ministry of agriculture officials admit privately there is no prospect of any lifting of the 11-month old EU beef ban before the British general election.

Newsteam Manchester

Police have warned protesters against the proposed second runway at Manchester airport in northern England that the tunnels they are digging in an attempt to halt development could fill with methane gas produced by vegetation. Some protesters have been using candles to light their way while digging three tunnels under a wooded area

Family peace for mountain warriors

By Bernard Gray, Defence Correspondent

Gurkhas, the fearsome mountain warriors of Nepal who have been recruited by the British Army for the past 180 years, are to be allowed to bring their families to Britain for the first time under service conditions to be introduced this summer.

However, while top sergeants and officers will be allowed "accompanied tours" throughout their careers, other ranks will be permitted only one three-year tour of married bliss in their 15 years of service. For the rest of the time, Gurkha corporals and riflemen will have to look forward to the six-month extended leave which they get every three years to keep them in touch with their families and hill villages.

Worse, in this first large-scale review of Gurkha service since 1947, the extended leave period is being cut from six months to five. This change comes because improvements in communications mean they will spend less time travelling and more time with their families than they did in 1947.

The review has been prompted by the forthcoming British handover to China in June of its colony of Hong Kong. That will leave most of the 3,000 Gurkhas in the British army in the UK, with smaller units in Brunei.

Pay and conditions have also been reviewed. From July, Gurkhas will receive a basic salary linked to rates in the army of India, which also recruits Gurkhas, and a standard allowance wherever they serve. Before the review, allowances varied and a corporal could be paid between £7,000 ($11,340) and £20,000 depending on where he was serving.

However, of a corporal's new standard salary of £13,000, only £260 will be basic pay on which pensions are calculated.

Judges back suit by asylum seekers

By Robert Rice, Legal Correspondent

Municipal authorities have a legal duty to house and feed asylum-seekers, the Court of Appeal in London ruled yesterday.

Their benefits were withdrawn by the government last year in an effort to curb bogus asylum applications.

The court dismissed an appeal by three boroughs in central London against a High Court ruling last October that they must provide the "basics for survival" to four asylum seekers in need of care and attention while their claims were processed.

About 2,000 asylum seekers, mainly in London, are affected by the outcome of the case.

The government last year stopped benefit for those who failed to claim asylum immediately at their port of entry.

Mr Gerry Clore, a lawyer for the four, said afterwards: "No civilised society can tolerate a system where people are intended to starve."

The appeal court agreed with lawyers for the men, who said their clients had fled persecution in Iraq, Romania, Algeria and China, that the boroughs would be in breach of their duties under the 1948 National Assistance Act if they stopped providing housing for destitute asylum seekers.

The boroughs had argued that their duty to provide shelter, warmth and food was only to those in need by reason of age, illness, disability or similar circumstances and not to able-bodied people who simply had no money.

The court said asylum seekers were not entitled to claim automatic assistance from authorities merely because they lacked money and accommodation.

But they were entitled to claim that, because of the withdrawal of benefits, they were likely to end up in need of care and attention as defined by the 1948 act.

Port operator and Swedish engineers face limitless fines after walkway collapse kills six

Companies found guilty of safety breach

By John Mason, Law Courts Correspondent

Two Swedish engineering companies and the operators of the port of Ramsgate in south-east England were found guilty in a London court yesterday of failing to ensure the safety of passengers after an accident in which six people were killed when a walkway collapsed.

Port Ramsgate now faces an unlimited fine. Lloyd's Register of Shipping, which gave the walkway a safety certificate, also faces an unlimited fine, having pleaded guilty to a similar offence before the trial.

Fartygsentreprenader AB and Fartygskonstruktioner AB, the Swedish companies which designed and built the walkway, also face the possibility of unlimited fines, but these could only be enforced if the companies attempted to do business in the UK again. They chose not to defend themselves at the trial.

The highest penalty imposed after a conviction under the Health and Safety at Work Act was £750,000, imposed on BP in 1988 following the deaths of three men in explosions at the company's Grangemouth refineries in Scotland.

Both the design and construction of the walkway were to blame in the accident at Ramsgate, the court heard. The walkway was held in position by a single steel pin welded to one of four sliding feet at the end of the ramp connecting ferries to the port building.

The Swedish designers had not allowed for the possibility that wind, tides and traffic would rock the walkway causing its weight to shift on to just two of the feet, the prosecution said. Inferior welding of the pin to the feet and the rigid structure of the walkway caused the pin to snap as the passengers walked across.

Commercial pressures to install the equipment as quickly as possible in the face of competition from the Channel tunnel had also played a part, said a lawyer prosecuting for the Health and Safety Executive.

"The design was inherently unsafe and it has to be said that this was a design that was both inept and incompetent. It was an accident waiting to happen and it happened earlier rather than later because of poor welding," he said.

After the verdicts, Mr Stephen Banfield, principal HSE inspector said: "The companies involved have clearly failed in their duty to ensure public safety. The sad fact is that the accident could and should have been prevented if all or indeed any one of them had taken reasonable care."

Sentencing of Port Ramsgate and Lloyd's Register of Shipping will take place on February 28.

Global prize in the arms of Eurofighter

Defence deal is focus of contest between the US and Europe to dominate missile industry

The battle to supply the British defence ministry with the main missile system for the Eurofighter is a bitter contest between Europe and the US for the technological high ground in the global guided weapons industry.

The outcome is also critical to the prospect for exports of the £40bn ($65bn) Eurofighter programme, and is likely to set the tone for the transatlantic arms trade over the coming decade.

Small wonder then that the ministry is treading carefully, and in the run-up to the UK general election is now considering postponing the contentious decision.

Ostensibly, the £900m competition is a simple matter of who will provide the long-range missile which will act as the principal weapon of the Eurofighter, the next-generation combat jet being developed by Britain, Germany, Italy and Spain.

In fact, it is a fight for primacy between Hughes of the US, which has just been bought by its rival Raytheon, and a European team led by British Aerospace, backed by companies such as Matra of France and Daimler-Benz Aerospace of Germany, in the sector of the market which is considered to be the blue riband of guided weapon technology.

Eurofighter was originally designed to use the Advanced Medium Range Air-to-Air Missile (Amraam), the world-standard long-range missile developed by Hughes of the US in the 1980s which aims to engage aircraft well beyond visual range. Now, however, the British ministry has changed its mind, and wants a more sophisticated weapon it has christened the Future Medium Range Air-to-Air Missile (Fmraam).

One reason for this is that Russian missiles have been developed which are thought to be as good as Amraam, lessening the western lead. A second reason is concern about the control of US technology. When the Royal Navy bought Amraam for its Sea Harrier aircraft, it found extreme difficulty in discovering from the Pentagon how the missile worked.

The US also tightly controls the re-export of its technology, and in a competition to supply Finland with fighters, the US blocked Sweden's re-export of its Gripen fighters with Amraam to Finland, but allowed US F/A 18 jets with the missile to be sold there.

The UK is keen to avoid both problems with Eurofighter. It particularly wants to avoid the programme being subject to a US veto on export sales when US companies will be competing for the same orders. As a result, there has been a strong presumption in the Fmraam competition that the European team will win.

This would give Europeans the most capable air combat missile on the market, which would have the added advantage that it is compatible with Amraam, and so could be fitted to all aircraft in the world using the US missile – an outcome the US is clearly keen to avoid.

However, the difficulty for the Europeans is that the US has a huge technological lead in the sector, and it would cost most of the £900m set aside for the Fmraam simply to catch up. This makes a European missile hopelessly expensive unless another Eurofighter nation joins in the development programme.

In practice, this boils down to roping Germany into the Fmraam programme, since it will face the same problems as the UK with its Eurofighters. However, finding German funding for the basic aircraft has proved hard enough, and it has begun to look impossible to pull Germany into a joint Fmraam programme by the British ministry's May deadline decision.

At first blush, delay would seem to favour the Europeans, who would have more time to stitch together joint funding. If the British ministry is also prepared to fund research by both teams into the more difficult technical challenges posed by the missile, the US technical lead would also be reduced.

However, the £5m funding offered by the ministry would not reduce the US lead by much, and delay means that the European team would also lose the imperative of the British general election, which would tend to favour the home manufacturer.

Waiting also blunts ministry irritation at the US refusal to buy a British short-range air-to-air missile last autumn; UK ministers lobbied hard for the BAe missile to act as the short-range back-up to Amraam for the US Navy, and a swap where the UK bought the US long-range missile in exchange for a US purchase of the British short-range weapon was suggested. Eventually, however, the contract went to Hughes.

Annoyance at that will fade over time, improving Hughes's chances. And while delay may offer more time to bring other Eurofighter countries into the programme, it will not change the fundamental issues: is Europe prepared to pay for the technology to make Eurofighter completely independent, and how far is the US prepared to go to keep its monopoly of the western long-range missile market?

Bernard Gray

BAe Defence

Eurofighter – due to enter service in 2002 – will replace European Tornado fighters and US-made Phantoms and Starfighters in the air forces of Britain, Germany, Italy and Spain

UK NEWS DIGEST

EDS wins BBC systems deal

EDS, the big US IT operator, and accountancy firm Coopers & Lybrand yesterday agreed a 10-year contract to run the finance and business systems of the BBC, the public service broadcaster.

About 90 BBC staff will switch over to the new joint venture – Media Accounting Services. The project will be monitored and if successful, up to 800 staff could eventually move to the new company.

The contract is worth between £40m ($64.80m) and £50m in the first year. The BBC said that "substantial savings" were expected and would be invested in programmes and services. *Jim Kelly, London*

■ POULTRY DISEASE

Vaccination for 12m chickens

Northern Ireland's entire poultry population of 12m is to be vaccinated in the next few days in the wake of the worst case of bird disease for more than 20 years.

The Department of Agriculture in Northern Ireland yesterday outlined plans for the voluntary vaccination of an estimated 10m chickens and other poultry following separate incidents of Newcastle Disease, a respiratory virus which is usually fatal for domestic fowl.

On Wednesday, Mr Ron Martin, Northern Ireland's chief veterinary officer, is due to answer questions on the issue at the European Commission's Standing Veterinary Council meeting in Brussels. *John Murray Brown, Dublin*

■ ALTERNATIVE INVESTMENT MARKET

Advisers face criticism in review

Up to five advisers face criticism when the London stock exchange this week announces its long-awaited review of the Alternative Investment Market.

The review was set in motion last summer and coincided with a series of incidents on the junior market, including the censuring of one adviser and the de-listing of two companies, amid concerns over a lack of due diligence by a few nominated advisers.

The London Stock Exchange refused to comment on whether any so-called "nomads" would be publicly censured or expelled. It had previously indicated that all criticism would be made privately. Nomads form a vital part of Aim, acting as scrutineers of a prospective company's prospectus and continuing to steward the group once it floats. *Christopher Price, London*

■ PRIVATISATION

Fifth rail franchise for group

The National Express coach group yesterday became the largest holder of rail franchises when it was awarded Central Trains operating in the English Midlands and Wales. The award gives the group its fifth franchise and a dominant position in public transport in the West Midlands.

National Express is already the largest bus operator in the west Midlands and will also operate the region's new Metro tram system which is under construction. It also owns and operates East Midlands Airport, the smaller of the region's two airports. The Central Trains franchise, which runs for seven years, gives the group an annual subsidy of £187.5m ($303.75m) in the first year, declining to £132.6m in 2004. *Richard Wolffe, Birmingham*

TECHNOLOGY

Voice projection: traders try out the Chicago Board of Trade's vast new trading floor, which opens this morning

Loud and clear

Laurie Morse on the wizardry aimed at perfecting acoustics in the world's biggest futures trading floor

There is plenty of state-of-the-art electronic technology packed into the Chicago Board of Trade's new $182m (£112m) building. But the real test of the exchange's latest trading arena will be whether, when the opening bell rings this morning, the 3,000-plus traders in its pits can decipher each other's shouts well enough to conduct business.

The CBoT is the busiest futures exchange in the world, and it has built the world's largest trading floor, an enormous space that could challenge the physical limits to open-outcry trading.

While the derivatives business is futuristic in many ways, futures trading in Chicago, New York and London still boils down to the power of the human voice. Computerised trading aids are developing quickly, but do not yet beat the three-to-four seconds it takes to convey and complete a voice trade.

Trading US Treasury bond futures has always been an athletic undertaking, in which brawn and vocal power are as important for success as trading strategy.

Charles Kinsey, an industrial designer who has made a science out of trading floor engineering, says that in the CBoT's bond futures pit, traders have about 1.7 sq ft of space each, which leaves them packed 17 ins apart, shoulder-to-shoulder, a working space far narrower than the average theatre seat. The din from that crowd can be loud enough to damage the hearing over time.

Kinsey's company, Chicago-based Space Management Programs, has participated in the design of nearly every public trading space in the world, from London to Singapore, over the past 20 years.

The CBoT has called on the company five times for floor design and renovation. Acoustics, says Kinsey, were a primary consideration from the outset for this trading floor.

At 65,000 sq ft the new trading arena is big enough to park a Boeing 747. The ceiling soars 60ft above the floor, and each pit has been expanded to give traders more room and better views to the booths where customer orders enter the floor and are flashed by hand signals to the pits.

A specially designed sub-floor can accommodate enough computer and telephone cable to stretch around the world. That space also holds an auxiliary cooling system designed to pump chilled air up through the floor of each pit, where temperatures can be stifling.

Most importantly, the new floor has been designed to be quiet, or at least as quiet as possible given that about a third of its 8,000 inhabitants make – or lose – fortunes by shouting all day.

Every inch of wall space, the surfaces of all 876 trading booths that are tiered around the pits, and the deep recesses of a ceiling formed like a honeycomb are covered with fibreglass cushion designed to soak up sound like a sponge.

"We didn't want to create a totally dead room, but we wanted to make sure the traders only heard direct sounds, without reflections from other areas," says Allen Shiner, president of Shiner and Associates, Chicago-based acoustical engineers which were part of the trading floor design team.

When the CBoT opened a new grain trading floor 15 years ago, the then state-of-the art facility had the acoustical ambience of a tin can.

Shouts echoed off the plate-glass windows of the visitor's galleries that lined the upper walls on three sides of the floor, and left horrified traders unable to discern was being said just a few feet away.

Shiner's company was brought in to fix the problem, installing the giant sound-absorbing fabric "wing" that bangs from that trading floor's ceiling.

On the new floor, the acousticians are taking no chances. They measured noise levels on the old bond trading floor and decided to strive for an acoustical standard that would allow sound to dissipate in one second – about half the time allowed for a conventional office.

Acoustical fabric has even been packed between the characters of the electronic price boards

Then they set about blotting out the noise. They built 612 coffers in the ceiling that are 11ft deep and 6ft square, lined with 5in thick acoustical panels. They articulated the trading room's walls to create more area for acoustical fabric.

There is a visitor's gallery above the trading floor, but its window is positioned to reflect sound away from the floor. Acoustical fabric has even been packed between the characters of the electronic price boards that line the room's walls.

The designers were so militant about avoiding reflected noise that tests were even done on the lenses of the overhead lights – it turned out that the lights are so deep in ceiling coffers that their reflective effect was minimal.

Kinsey says the challenge this floor poses is its large scale – the new bond pit is deeper, and about 5ft wider than the old one. He explains that while traders may have to project their voices further, they should not have to shout louder, thanks to acoustical enhancements.

Traders were invited to try out the new floor in four mock trading sessions during the past month. The verdict: booth and working areas outside the pits are far quieter than the old floor. However, noise levels in the middle of the pit are still about as loud as an industrial steel mill.

The architects muse that the only thing left to do is tone down the traders. They say they expect to be fine-tuning the new facility right up to the opening bell, and probably for several months after.

Researchers are genetically boosting the oyster's resistance to disease, says Bruce Dorminey

Raise a glass to the shellfish gene

Considering the recent outcry over genetically-altered soyabeans, it may be hard to believe that the French will soon be raising champagne flutes in tribute to transgenically-engineered oysters.

But according to some aquaculture researchers, that is an inevitability. "Right now if you put a box labelled 'natural oysters' next to one labelled 'genetically-transformed oysters' you can be sure that no one would take the latter," says Philippe Roch, "but it's just a problem of sensitivity and nothing reasonable."

Roch, an immunologist, is director of Drim (Defence and Resistance for Marine Invertebrates), a research group based at the University of Montpellier. The group is conducting a FFr1m (£109,000) research program with the help of Ifremer (the French Marine Research Institute), France's CNRS (National Centre for Scientific Research) and the university. Their goal remains to stabilise France's oyster production by genetically bolstering the mollusc's immunity to disease.

The research is commercially driven. France produced almost 150,000 tonnes of oysters in 1995, mostly of the so-called Japanese variety *(Cassotrea Gigas)*. Yet their populations have steadily declined over the past two decades – partly because of increased levels of toxins and pollutants in the breeding areas, and partly because of monoculture (over-intensive farming of one species).

Whatever the cause, disease routinely wipes out half and sometimes as much as 80 per cent of the harvest. Even so, oysters have the ability to defend themselves with anti-bacterial free-floating peptides (or proteins) within the oyster's DNA (deoxyribonucleic acid).

Why they don't produce more such peptides is a problem Roch is trying to address by either bolstering their production within the oyster itself or importing similar peptides into the genetic sequence from mussels, for instance. Insects such as fruit flies and mosquitos also have very efficient anti-microbial peptides, which help them to survive bacterial infections quite easily. So they could be a good source for foreign genes.

"What is important," says Wil van der Knaap of Amsterdam's Free University, who is Drim's visiting immunologist, "is that [the source] is an animal that produces a peptide that is more efficient in its anti-microbial activities than are the molecules that are naturally present in the oyster."

An oyster's normal genetic action sequence starts with the DNA code and progresses downstream to messenger RNA (ribonucleic acid). From there the messenger RNA delivers the message to the peptide which in turn triggers the anti-microbial activity.

Before such oysters could be produced commercially, the EU would have to rewrite its laws

But to identify the trigger, Roch and colleagues need to find the way back up the genetic stream until they reach the oyster's DNA sequence. They have successfully isolated the messenger RNA, but identifying the exact regulation mechanism could take as long as five years.

Meanwhile, Roch and colleagues are almost capable of importing anti-microbial genes for insertion into the DNA sequence. A favoured method would be lipofection, or the building with lipids (proteins) of artificial vesicles, small fluid-filled membranes within cells. From there genetic technicians would insert into the lipid the gene to be transferred, and then fuse the genetic molecules to the oyster culture's cell membranes.

While these genes are easily detectable through testing, using a staining reaction, the researchers still need some assurance that the gene is really integrated into the DNA sequence and not just floating around in the cell's cytoplasm. And when Drim does perfect the technology, the genetically-altered oysters will remain in a confined breeding area, perhaps even several miles inland in artificial tanks.

But before such oysters could be produced commercially, the European Union would have to rewrite current statutes on the subject. While commercial genetic engineering on tomatoes and tobacco is permitted within the EU, it is not allowed in animals.

But Roch is betting that by the time Drim's technology is ready for commercial use, the EU will have bowed to aquaculture interests.

"No one knows exactly if there is a danger from genetically-altered oysters and, if there is one, where it is," he says. "So we plan to control them in a limited, confined environment and to make them sterile. But anyway, after four or five generations they will return to their original, unaltered state."

In the US Bob Grossfeld, an animal physiologist at North Carolina State University, is conducting similar immunological research on the American Oyster *(Cassotrea Virginica)*.

"It should be possible to genetically engineer oysters or other shellfish with increased expression of their own anti-microbial genes," says Grossfeld. "That might make the consumption of such genetically transformed shellfish more palatable to consumers."

LAW

Bondholding not an activity

EUROPEAN COURT

The mere acquisition and holding of bonds are not economic activities for the purposes of the Sixth Value Added Tax Directive, the European Court of Justice ruled recently.

The case arose out of proceedings between Harnas & Helm, a Dutch limited partnership, and the Dutch state secretary for finance.

Harnas held shares and bonds issued by bodies and undertakings in the US and Canada. Under the directive, member states were required to grant taxable persons the right to a deduction or refund of VAT insofar as the goods or services concerned were used for certain specified activities outside the European Union.

During the relevant period Harnas had received dividends or interest on its US and Canadian shares and bonds and it therefore filed a tax return with the Dutch authorities in which it deducted that amount of VAT.

However, the Dutch tax inspector issued a reassessment notice to recover the amount of VAT deducted and the Amsterdam Regional Court of Appeal dismissed Harnas' appeal against the notice on the ground that it had not carried out any economic activity within the meaning of the directive. It could not therefore be classed as a taxable person qualifying for the deduction.

Harnas appealed to the Dutch Supreme Court which referred the case to the European Court of Justice.

The Dutch court asked whether article 4(2) of the directive was to be interpreted as meaning that the acquisition and holding of bonds and the receipt of income from those bonds were not to be regarded as economic activities conferring on the person the status of a taxable person.

The European Court noted that economic activity included the exploitation of tangible or intangible property for the purpose of obtaining income from that property. Furthermore, it held that article 4(2) conferred a wide scope on VAT, comprising production, distribution and the provision of services.

In accordance with the principle that the common system of VAT should be neutral, the concept of "exploitation" within the meaning of article 4(2) referred to all transactions by which it was sought to obtain income from the property in question on a continuing basis.

However, the Court had specified that the acquisition and holding of shares in a company was not an economic activity such as to confer on the holder the status of a taxable person.

The Court had also held that the acquisition of financial holdings in other undertakings did not amount to the exploitation of property for the purpose of obtaining income because any dividend yielded by that holding was merely the result of ownership of the property.

The Court therefore agreed with the Dutch government that the activity of a bondholder might be defined as a form of investment which did not extend further than asset management, and that the income derived from bonds could not be regarded as a return on an economic activity or transaction carried out by the bondholder.

There was no reason to treat bondholding differently from shareholding.

The Court concluded that the mere acquisition and holding of bonds, and the receipt of income from those bonds, were not to be regarded as economic activities conferring on the person concerned the status of a taxable person within the meaning of the directive.

C-80/95: Harnas & Helm v Staatssecretaris van Fainanciën, ECJ 6CH, February 6 1997.

BRICK COURT CHAMBERS, BRUSSELS

INTERNATIONAL PEOPLE

Philips' new financial officer

Jan Hommen, chief financial officer at Alcoa of the US, is joining Philips in the same role, after the elevation in March of Dudley Eustace to vice chairman of the Dutch electronics group. Eustace has held the finance reins since 1992, during which Philips moved from loss to record profits, before sinking back into the red last year.

Philips' regional divisions worldwide will report to Eustace, for whom the post has been created by Cor Boonstra, president since last October. An Englishman aged 60, Eustace was formerly with British Aerospace. Hommen, a 53-year-old Dutchman, has been in the aluminium industry all his working life, starting in 1970 with Lips in the Netherlands and moving to Alcoa's local subsidiary five years later.

Boonstra, describing the returning expatriate as having an excellent record, said Hommen's task was "further to strengthen the financial and budgeting processes that Eustace has established within our company and to build on the relationship of trust which Eustace has developed with the financial community at large."

Philips' annual sales are about three times those of Alcoa, but both companies have recently encountered an earnings downturn and are cutting jobs. Hommen will be a vice president, filling a slot on the board being vacated by Frank Carruba, an American who is himself going home. *Gordon Cramb, Amsterdam*

Baby Bells merger spawns job moves

Bell Atlantic and Nynex Corporation, the US 'Baby Bell' local operators which are merging to form a telecommunications giant, are continuing to integrate their processes and their people.

Laurence Babbio, vice-chairman of Bell Atlantic since 1995, has been appointed to lead two of the five operational units in the new company.

He has been named president and chief executive of the network group and chairman of the global wireless group.

Ivan Seidenberg, Nynex chairman said: "Larry Babbio's extensive telecommunications experience and ability make him the right person to lead the network group at the new Bell Atlantic."

The proposed merger between the two Bell companies was announced in April last year. It will have 39m telephone access lines in 13 states and more than 4m cellular customers.

The other operating groups in the merged company are telecommunications, led by Jim Cullen; Information Services led by Mat Stover; and the International Telecommunications Group, for whom a president has yet to be announced. Business development as well as finance will be consolidated under Fred Salerno, the merged group's chief financial officer. *Alan Cane, London*

Shell unveils two senior promotions

Phil Watts has been appointed managing director of Shell Transport and Trading, the UK-based arm of the giant Anglo-Dutch oil group. Watts will succeed Mark Moody-Stuart, who moves up to the chairmanship upon the retirement later this year of John Jennings.

Watts joined Shell in 1969 as a geologist. He served in Indonesia, the Hague, Norway and London before becoming chairman and managing director in 1991 of Shell's Nigerian subsidiary. He most recently held the post of director of planning, environment and external affairs in London.

Shell has also announced the appointment of Jeroen van der Veer as managing director of Royal Dutch Petroleum Company. He joined the group in 1971, and held various posts in Shell Nederland and in Curaçao before being moving to the UK. He later returned to the Netherlands before moving to Houston in 1995 to assume the presidency of Shell Chemical Company. *Robert Corzine, London*

Manila appoints port operator boss

International Container Terminal Services (ICTSI), the Philippine port operator at the heart of the controversial Subic Bay privatisation, has appointed a new president to replace Carlos Soriano, who resigned earlier this month.

Rogelio Salazar, an ICTSI board director from 1987-92, assumes the new role of full time president. Soriano will remain on the board, concentrating on international business development, as well as pursuing other interests outside the group.

"We're putting in a new full-time president so we can pursue our expansion into management of port operations outside the country", said Salazar. "The globalisation of our operations is the biggest challenge."

ICTSI has three port operations in Argentina, Mexico and Pakistan and is looking at further opportunities in south America and the Middle East.

The group is set to re-bid in April for the privatisation of Subic Bay, following an intervention by President Ramos which overturned a decision to award the contract to Hong Kong's Hutchison Whampoa. Critics have accused the government of succumbing to pressure from losing local bidders and favouring them above foreign groups.

Salazar, a 61-year-old chemical and metallurgical engineer, graduated from the University of the Philippines. He then did postgraduate research in the US at the University of Wisconsin and the University of Hawaii. *Justin Marozzi, Manila*

ON THE MOVE

■ Stanley Hui moves from being chief operating officer of Air Hong Kong to take over as chief executive of DRAGONAIR AIRLINES, the colony's second largest airline. He succeeds Philip Chen, who is returning to Cathay Pacific as deputy managing director.

■ Peter Horvath has been appointed vice-president and chief financial officer, apparel, at THE LIMITED, the US fashion retailer. He was most recently vice-president and chief financial officer at Structure Inc.

■ Wee Ee Cheong, deputy president of Singapore's United Overseas Bank, joins the international board of VISA INTERNATIONAL, the US credit card company. He has been a director of Visa's Asia-Pacific board since 1992.

■ Sohn Kun-suk, head of Posco's construction affiliate, has been named interim manager of South Korea's bankrupt HANBO STEEL INDUSTRY.

■ Ronald Leach, vice-president, accounting at EATON CORPORATION, the US manufacturer of vehicle components and electrical equipment, is retiring after 26 years with the company.

■ Grahame Savage has been named chief executive of National Australia Bank subsidiary NORTHERN AND NATIONAL IRISH BANKS. He succeeds John Wright, who becomes head of a Kuwait-based bank on March 4.

■ Former US Senator Paul Simon has been appointed to the board of the CHICAGO MERCANTILE EXCHANGE, along with Paul Michaelcheck, chairman and founder of Mariner Investment Group, and David Pryde, a managing director and business manager of global exchange-traded products at JP Morgan.

■ Frank O'Keefe, formerly with JP Morgan, joins ZURICH INVESTMENT MANAGEMENT as managing director responsible for marketing institutional asset management services to insurance companies.

■ James King takes a new position as chief operating officer of Asian operations at FOSTERS BREWING GROUP. He was previously president of Kraft Foods (Asia Pacific).

■ Leandro Guillen Barca rises to become chairman of Spanish state holding company SEPI, succeeding Javier Alvarez Vara.

■ Fernando Gutierrez joins ARGENTARIA from Bank of Spain, as head of research. He replaces Jose Juan Ruiz, one of several departures since Francisco Gonzalez succeeded Francisco Luzon at the head of the institution.

■ Robert Hazelwood, a long-time motor industry veteran, becomes managing director of FRANCE MOTORS, the Mazda importer.

■ Claude Geronimi, most recently in charge of an Elf development in the North Sea, becomes managing director of BRITTANY FERRIES. He succeeds Christian Michielini, who has held the post almost since the company was set up in 1972.

■ Robert Gordon has been appointed senior vice-president of sales for Europe, Middle East and Africa for ORACLE CORPORATION, the US software giant. He is replaced as president of Oracle Canada by Donald Woodley.

■ John Preston has been appointed vice-president, finance, at SEAGRAM, the Canadian beverages and entertainment group. He will report to Robert Matschullat, vice-chairman and chief financial officer.

■ AMERICAN RE, which was acquired by Munich Reinsurance Company in November 1996, has promoted four new executive vice-presidents at American Re Corporation. They are Mahmoud Abdallah, Robert Burgess, Kenneth LeStrange and Edward Noonan.

■ Tim Tozer, the former chairman of Inchcape France (Mazda) becomes sales director of CHRYSLER EUROPE and managing director of Chrysler France. He replaces Christian Dubus, who is retiring after 35 years in the motor industry.

■ Juergen Geissiger has succeeded Klaus Lederer – now with Deutsche Babcock – as chairman of ITT AUTOMOTIVE EUROPE.

■ Gillian Hodson becomes director of product management and development, Asia/Pacific, at MASTERCARD INTERNATIONAL.

■ Sean Hughes has joined CASPIAN GROUP to set up and develop its investment banking business in Indonesia.

■ Rod Eddington, executive chairman of Ansett Australia, joins the board of NEWS LTD, the Australian offshoot of global media group News Corp. Eddington recently joined Ansett – half-owned by News Corp and Air New Zealand – from Hong Kong-based Cathay Pacific Airways, where he was managing director.

■ Robert Growney, who became president and chief operating officer of MOTOROLA on January 1, joins the board.

■ Eddy Geysen becomes vice-president, European Union affairs, at GENERAL MOTORS EUROPE, from March 1. Bo Andersson succeeds him as vice-president, GM Europe supply.

■ Brian Girvan has been appointed to the new position of chief financial officer and senior vice-president of AFFILIATED MANAGERS GROUP. He was most recently chief financial officer of Fidelity Investments.

■ Rudy Rolles has been appointed Hong Kong-based global head of sales trading at SOCGEN-CROSBY SECURITIES. He joins from Fraser Securities.

■ Mario Bonzano, the AT&T Milan-based president for Europe, the Middle East and Africa and Sergio Giacoletto the Geneva-based president of AT&T's international business unit are leaving. Merrill Tutton head of AT&T's UK operation will temporarily fill Bonsano's role.

■ David Lingelbach has been appointed by BANK OF AMERICA as country manager for Russia and the former Soviet Union. He is a specialist in emerging markets finance with extensive experience in the region. Bank of America is seeking regulatory approvals to establish a banking subsidiary in Moscow.

■ Peter Yngwe, chief financial officer and treasurer of SWEDISH EXPORT CREDIT CORPORATION succeeds Bo Marking, 60, as president on April 1.

International appointments

Please fax information on new appointments and retirements to: +44 171 873 3926, marked for International People. Set fax to 'fine'.

Trinidad and Tobago

Stephen Fidler examines the profound changes which have led to the Caribbean's most open economy

Prospects for growth are good

Trinidad and Tobago is emerging from a period of profound economic change with strong prospects for future growth.

The road to this point has not been easy. When oil prices were high, government – bloated, corrupt and inefficient – dominated the economy. When prices dropped in the 1980s, the government tried to stave off the day of reckoning. But in 1988, it was forced to seek International Monetary Fund medicine.

From 1986 to 1993, the economy contracted every year save one – 1991, when the Iraqi invasion of Kuwait pushed up oil prices. Income per head of the population has halved from US$7,000 a year in 1983, and the public sector has shrunk from about a third of GDP to 15 per cent. Wages of government employees – teachers, doctors, police – have been frozen since 1983.

As a result, the two island republic has become more like Latin America. According to Mr Ronald Harford, managing director of Republic Bank, the country's largest: "The bottom part of the population has dropped down, the middle has thinned, and the moneyed class is better off."

Despite this, since 1988, successive governments of three political parties have pursued broadly similar orthodox economic policies. According to Mr Anthony Bryan of the University of Miami's North-South Centre, Trinidad and Tobago "has moved from being one of the Caribbean's most centralised state-owned economies to its most open economy".

At long last, some benefits are showing. This year should be the fourth straight year of economic expansion: the central bank forecasts 4 per cent growth after 3.7 per cent last year, with inflation around 4 per cent. Unemployment, though still high at 16 per cent, is down from its late 1980s' peak of more than 22 per cent.

Successive governments have paid off debt, in part by using privatisation revenues. Public sector foreign debt fell to below US$1.8bn last year from US$2.5bn in 1990. Government debt servicing costs dropped to 14 per cent of exports in 1996 from 33 per cent in 1993, though will rise temporarily this year towards 19 per cent.

As a consequence, the country's risk rating has improved. The main US credit rating agencies Moody's and Standard and Poor's assess government foreign currency debt just one notch below investment grade.

Paying off debt has also provided an opportunity for the government to resume capital spending, needed not least to repair weakening economic infrastructure. This should still leave central government in overall budget surplus this year.

This more stable environment, changes to the tax regime and successive amenable governments have all encouraged foreign direct investment, which could exceed US$5bn over the next few years. Investors say attitudes to work in the country have also changed, and once powerful trade unions are now largely quiescent.

Most new investment is aimed at exploiting the country's natural gas reserves. According to energy minister Mr Finbar Gangar, gas should overtake oil in terms of the contribution to the economy by 2000.

Yet, to encourage the investment, the government has made concessions that keep the economy in thrall to price cycles in energy and petrochemicals, switching from royalty arrangements to production sharing contracts for upstream development and linking gas prices to final product prices for buyers. The reason is in part that Venezuela, 11km across the water, is opening its giant energy sector to foreign investment, too.

The government retains hopes of weaning the economy away from energy by developing tourism, particularly on the island of Tobago, and agriculture. The good news has been that the shrinkage of the manufacturing base of Trinidad, the most industrialised of the Caribbean islands after Puerto Rico, has been less than many expected after the opening of the economy. Though competition is fiercer than it was, it will get more intense as trading concessions from Europe, the US and Canada disappear.

This means enterprises must seek markets outside the Caribbean Community, or Caricom, that their products already dominate. Port of Spain is the headquarters of the Association of Caribbean States that groups together more than two dozen nations, but its value as a trade grouping is as yet untested. Some Trinidadians see the country's trading future with Latin America and Mercosur, the customs union centred on Brazil.

Meanwhile, the economy remains prey to an oil price collapse. The other main risks, according to Mr Ainsworth Harewood, governor of the central bank, are the possibility of the economy overheating and an inflationary public sector pay round.

With many investors starting construction, skill shortages are already apparent and wages of skilled workers such as welders are already being bid higher. Furthermore, the 14-year public sector wage freeze represents an unresolved predicament for this or a future government.

Another concern is the stability of the exchange rate, floated in January 1993. However, apart from a sharp slide immediately after the flotation, depreciation has been less than 10 per cent, despite an historic change of government in November 1995. A snap general election resulted in victory for the first Indian-led government in Trinidad's history, and the appointment as prime minister of Mr Basdeo Panday, of the United National Congress Party.

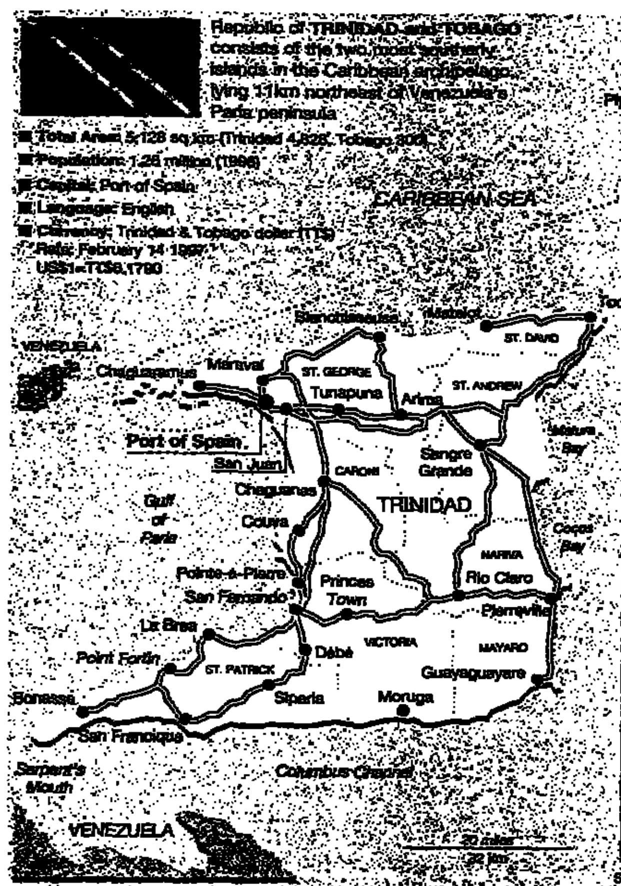
Although people of Indian and African extraction each account for about 40 per cent of the population, Afro-Trinidadians have run the government since independence from Britain in 1962. The takeover by the UNC gave rise to fears that Trinidad's unwritten racial compact – in which Afro-Trinidadians ran government and Indo-Trinidadians dominated business – would be broken.

The man whose decision brought the new government to power was a former prime minister, Mr A.N.R. Robinson. The election gave the UNC and the then-governing People's National Movement of Mr Patrick Manning 17 seats each in the 36-seat lower house. Mr Robinson's National Alliance for Reconstruction agreed to join a coalition with the UNC. It was of "fundamental importance" after 33 years, said Mr Robinson, "to give the opposition the sense that power was open to it".

Although there has been no interruption to the rule of elected governments since independence, an attempted coup in 1990 by Moslem extremists against Mr Robinson's government left vestiges of political tension. Politics is still subject to periodic shivers, such as when Mr Panday accused the opposition of planning violence to overthrow the government.

Nonetheless, Mr Panday is praised by many business leaders for the way he has handled the transition, though some are less complimentary about the way some government contracts have been awarded to business people close to the UNC.

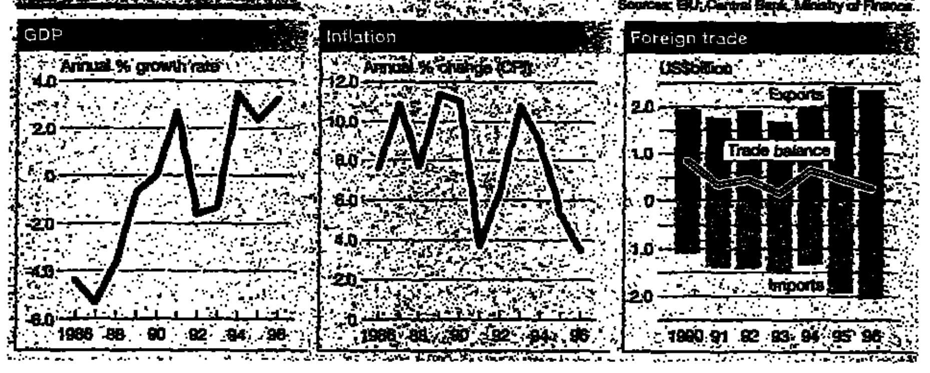
One of the most serious threats comes from drug trafficking: the country is a first step to Europe and the US for drugs from South America. Mr Panday's response has been to offer the closest co-operation with the US in the region. "Drugs have brought us increased crime. Seventy per cent of all crime in Trinidad and Tobago is drug-related. If I can deal with the narcotics problem, I will be able to deal with crime."



Government and constitution

- **Head of state**
President Noor Hassanali
- **Head of government**
Prime minister Basdeo Panday
- **National legislature**
Bicameral parliament: 36-member House of Representatives is directly elected; 31-member Senate is appointed by the president. Parliament sits for five-year terms
- **National government**
United National Congress party holds 17 seats in the House of Representatives and governs in coalition with the National Alliance for Reconstruction with two seats. The People's National Movement, the ruling party until defeated in general elections in November 1995, has 17 seats.

Sources: EIU, Central Bank, Ministry of Finance



Port of Spain is the headquarters of the Association of Caribbean States

ECONOMY • by Canute James

A country on the mend

After a series of reforms, the economy has now been stabilised and is growing

Two concerns gnaw at the minds of the planners of Trinidad and Tobago's buoyant economy. One is that an old bogey, a *fall* in the price of oil, could strike again. The other, that what is now happening could be too much of a good thing and could cause overheating.

The economy has been trying to escape from its heavy dependence on oil. The government has encouraged investments in gas and gas-based industries, and is trying to diversify by developing other sectors such as agriculture and tourism.

"There is a concern that the economy could be affected by a fall in the price of oil," said Mr T. Ainsworth Harewood, governor of the central bank. "Oil has contributed as much as 30 per cent of gross demestic product, but this is now about 24 per cent. It is still the largest sector in the economy, although the non-oil sector has been growing."

The economy faced collapse in the 1980s when the international oil market went soft. After a period of painful adjustment, Trinidad and Tobago now faces another challenge from the opposite direction. More than US$4bn in investments in the next three years, mainly in hydrocarbons, has raised the spectre of overheating. "We are concerned that it could overheat, as it did in the 1970s," said Mr Harewood. This worry is shared by Mr Basdeo Panday, the prime minister, who said a team of technocrats is looking at the dangers overheating would pose.

Other reasons for disquiet are not so easily explained. With foreign reserves of $800m, representing five months' import cover, the Trinidad dollar depreciated late last year by 4 per cent to a rate of TT$6.25 to the US dollar. The leading operators in the foreign exchange market, mainly large companies, were converting less of their foreign currency. Mr Brian Kuei Tung, the finance minister, is expecting an appreciation this year to a rate of about TT$6.00 to the US dollar which "would not affect exporters' competitiveness".

These concerns aside, Trinidad and Tobago's is an economy on the mend. The decline in the international oil market led to steady contraction between 1982 and 1990, with GDP falling 25 per cent and per capita income down by a third. Unemployment reached 22 per cent, with the inflation rate at more than 11 per cent per year. The balance of payments went into deficit, and the government was forced to devalue the currency three times in four years.

The government implemented a series of reforms in *1992 aimed at promoting* exports. It changed tax regimes to encourage investments in the energy sector, and liberalised the trade regime and the foreign exchange market. The currency was floated in 1993.

"The programmes have been successful, the economy has been stabilised and has grown," said Mr Harewood. The economy grew last year by 3.2 per cent, the third consecutive year of growth, driven mainly by expansion in the non-oil sectors. The forecast is for continued expansion with *growth of 4 per cent expec*ted this year. Inflation of 3.6 per cent last year is projected at 4 per cent this year.

"The economy is growing and the indicators are positive, but this is the result only of the positive developments with hydrocarbons," said Mr Dennis Pantin, head of the department of economics at the University of the West Indies. "Oil prices have been good and investments are being made. But all this has been at a price for much of the population."

An attempt at fiscal prudence in the difficult years led to the imposition of a wage freeze for public sector workers. In satisfying the demands of its employees, the government will face some difficult choices. The country's teachers have taken the government to court seeking a wage increase. A large pay-out could harm fiscal projections and inflation targets.

The parliamentary opposition is taking some credit for the performance of the economy. "The economic policies being implemented by the government are those fash*ioned by our administra*tion," said Mr Patrick Manning, who was prime minister for four years until 15 months ago. "The government has no alternative but to do this. The economy is still sound but it could have been better managed."

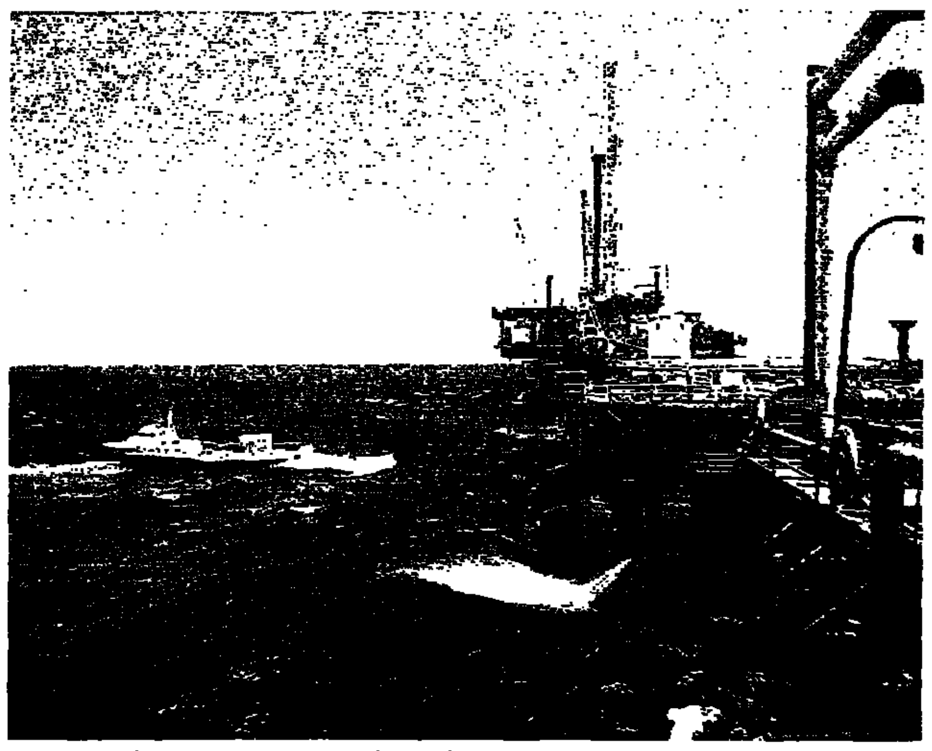
Mr Panday agrees that the economy could have been better managed, but he blames Mr Manning's government for this. "It was a mistake by the previous administration to liberalise to the extent that economic development is in the hands of the private sector alone," *said the prime minister.* "I agree about freeing the economy, but the government has a duty and a role to play in dealing with problems such as unemployment. What we have is economic growth and not really economic development."

Efforts to deal with unemployment, now officially at 16 per cent, have concentrated on the development of sectors such as agriculture and tourism. The ventures *in hydrocarbons are all capi*tal intensive, creating a few high-paying jobs but they are unable to significantly reduce joblessness.

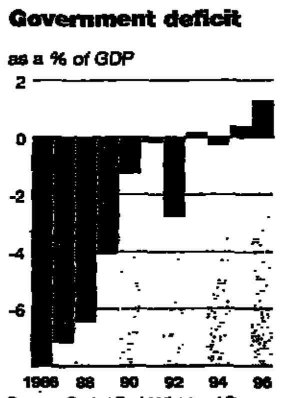
There are clear signs, however, that international investors have been impressed by developments. A $100m international bond issue late last year – priced at a significantly lower interest rate spread than a 1994 issue was oversubscribed by 150 per cent.

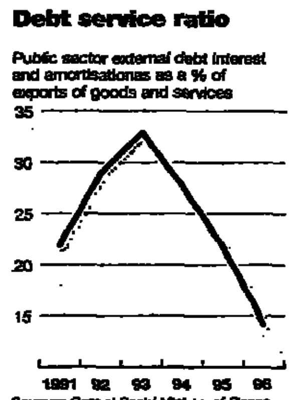
*In contemplating its eco*nomic future, the country is seeking wider trade connections. Mr Panday recently returned from leading a private and public sector mission to India where he found "significant" business interest, said the prime minister. "We told investors in India that Trinidad and Tobago is *their entrepôt for the US and* for the Americas."

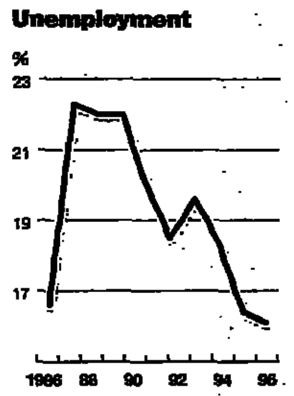
The administration wants to be listed as a potential member of the North American Free Trade Agreement (Nafta), and will seek association with Mercosur, the free trade zone formed between Brazil, Argentina, Uruguay and Paraguay. The desire for *Nafta membership has more* than economic significance for the country, according to the chief executive of one of the larger companies. "It is unlikely that Trinidad and Tobago will be made a Nafta member, and I do not think it should because I cannot see any real benefit. But if ever there is a statement of national confidence about where we think we are, then that is it."



The economy has been trying to escape from its heavy dependence on oil







ENERGY • by Canute James

Gas takes some of the shine off oil

Developments in the hydrocarbons sector have been encouraged by tax reforms

Despite efforts to diversify the economy, the energy sector remains the engine of Trinidad and Tobago's economy. *Oil* has been the *tradi*tional earner, but now the emphasis has switched to gas. This has spawned a growing petrochemical industry which has been making use of the country's natural gas. New fields are being exploited to keep abreast of demand.

Gas will not overtake oil *in importance to the econ*omy until 2000, said Mr Finbar Gangar, the energy industries minister. Consequently, there *is* still significant investor interest in oil. Amoco Corporation of the US is investing $1.2bn in the oil and gas industry over the next three years, starting with $435m this year. It is clearly good business for Trinidad and Tobago, but also for Amoco. Trinidad and Tobago contributed 5 per cent of Amoco Corporation's global earnings of $2.8bn last year.

The investment by Amoco, *which has been in Trinidad* and Tobago for 36 years, is the latest in several important ventures by foreign *companies in the country's* energy sector. Committed investments to 2000 are valued at $4bn, said Mr Gangar.

The biggest project is a $1bn investment in a liquefied natural gas plant by foreign and local companies. Atlantic LNG, which will manage the LNG plant, is owned by Amoco Trinidad, *with a 34 per cent stake,* with British Gas Trinidad having a stake of 26 per cent. Repsol of Spain has 20 per cent, with Cabot Trinidad, a subsidiary of the US company and the state-owned National Gas Company of Trinidad and Tobago, having 10 per cent each.

Atlantic LNG, which government officials contend is the single largest investment in the Caribbean, will be supplied with 450m cubic *feet of gas per day* by Amoco Trinidad, under a 20-year contract. The output of 3m tonnes per year of LNG has been sold under a 20-year take-or-pay contract, with Cabot LNG taking 60 per cent and Enagas of Spain taking the remainder.

Current gas production of 750m cubic feet per day will *rise to 1bn cubic feet per day* by 2000. Known gas reserves are 18,000bn cubic feet, which should last about 25 years, said Mr Frank Look Kin, president of the National Gas Company. British Gas is developing new fields off the north and the east coasts of Trinidad. Such *is the confidence of investors* that plans have been made to double the output of the LNG plant to 6m tonnes per year.

"Investors are looking for long-term stability, they are looking for an administration which understands our business," said Mr Simon Bonini, general manager of British Gas Trinidad. "An indication of the seriousness *of past and present Trinidad*ian administrations was evident in the approach to the LNG project. From concept to realisation this project is the fastest in many years."

> The country's biggest project is a $1bn liquefied natural gas plant

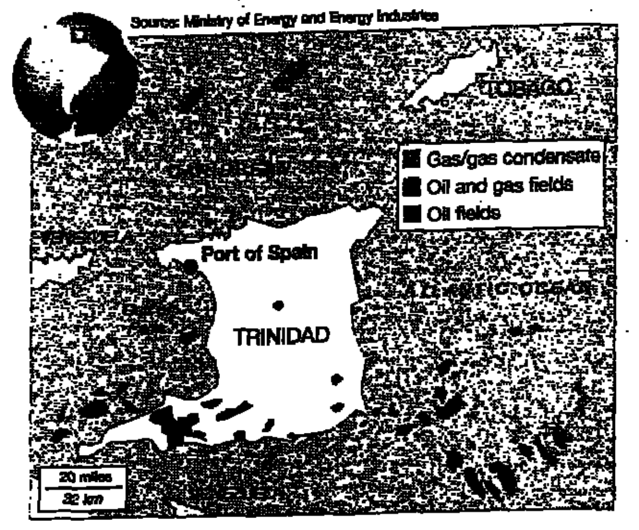
Trinidad's natural gas has also stimulated a range of petrochemical industries, including ammonia, urea and methanol. Investors *have bought into existing* facilities, some of which have been divested by the government, while others are building plants. Trinidad and Tobago's fertiliser production is expected to double by 2000 to just under 5m tonnes per year.

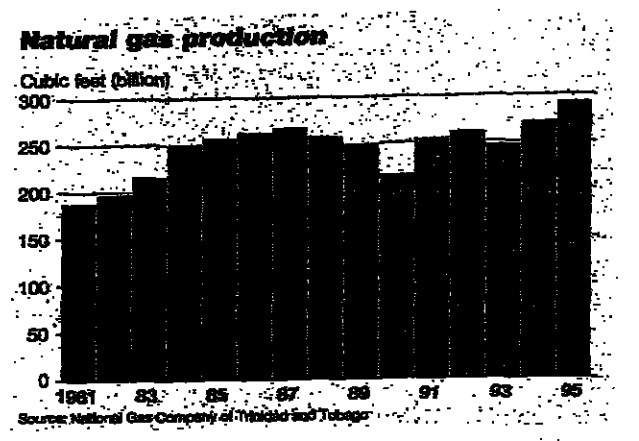
Among the companies investing in *fertilisers* and methanol are Norsk Hydro of Norway, Ferrostaal and Helm of Germany, Methanex of Canada, Farmland, Arcadian and Mississippi Chemical of the US. Ispat of India, which owns the country's main steel mill, is investing about $300m in expanding the plant. The government is discussing with investors the prospects for two aluminium smelters.

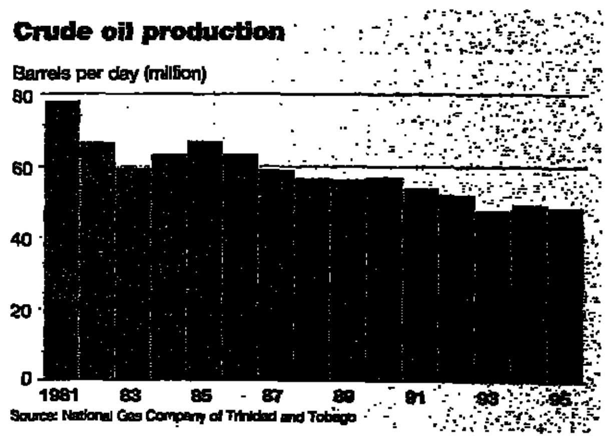
Trinidad and Tobago faces competition for investments in gas-based industries. Neighbouring Venezuela offers gas at cheaper rates than those offered by Trinidad and Tobago. "We give investors an advantage by linking gas prices to product prices," said Mr Look Kin. "There is a threshold which guarantees us a return, so *while our gas will not be* as cheap as Venezuela's, we make use of our strategic location and an attractive climate."

Investors agree that it is a good place to do business. "We have been operating in Trinidad and Tobago for 36 years, and we have developed a satisfactory business *relationship with the govern*ment and the business community," said Mr David Wight, Amoco Trinidad's president. "Our investments have been encouraged by Trinidad and Tobago's substantial hydrocarbon resources, and by the country's location which allows it to compete for markets in *Europe, North and South* America."

The developments in the hydrocarbons sector have been encouraged by reforms of the tax regime. Taxes, described as high by companies in the sector, have been changed in the main to production-sharing contracts. "Governments have changed *but the policies towards the* hydrocarbons sector remain unchanged," said Mr Bonini.







POLITICS • by Canute James

Race factor is taking a back seat

The country is better placed for a radical approach to ethnicity in government

As often happens with successful calypsonians, Winston "Gypsy" Peters has scored with a contemporary theme. In taking the "Calypso Monarch" title in the carnival a fortnight ago, Gypsy won points for "Little Black Boy", a plea to young black Trinidadians to eschew drugs and crime, and to get educated and become successful like young men of other races. Race is a theme never far below the surface in Trinidad, where people of Indian and African stock each make up about 40 per cent of the population. For a long time, race has been the main element in the country's politics.

"Politics has indeed been based on race, but this situation is changing," said Mr Basdeo Panday, the prime minister. "Political parties now know that in order to win an election they must have support from the other racial groups and not just the one from which they have traditionally drawn support."

The People's National Movement has traditionally received its support from Afro-Trinidadians, and the United National Congress has been regarded as representing mainly Indo-Trinidadian interests. Consequently, the win in 1986 by the National Alliance for Reconstruction, led by Mr A.N.R. Robinson from his base in Tobago, was particularly significant. It ended 30 years of government by the PNM, and was, in effect, a successful attempt to cut across the traditional divisions of race.

The victory in 1995 of Mr Panday's UNC was also significant because it brought to office the first Indian-led government. The campaign was accompanied by rumours that, having been so long in the political wilderness, a victorious UNC would exact "revenge" on Afro-Trinidadians.

"Over a year has passed and these groundless fears have not been realised," said Mr Panday. "Instead there is an attempt now to fuse the cultures, with people looking beyond racial lines."

Whatever the concerns of one group, said Mr Robinson, it was important for the country's political development that Indo-Trinidadians were given a high profile in politics. This explains his decision to form a coalition with Mr Panday, contributing the two NAR seats to break the 17-17 tie between the UNC and the PNM.

"When an ethnic group which has not before been in government comes to power, there is initial concern. But power has a sobering effect. It instils responsibility for the welfare of a country. The country is now much better placed for a rational and constructive approach to ethnicity in government," said Mr Robinson, who since an election on Friday is the country's president-elect.

Mr Patrick Manning, leader of the PNM, however has ignored Mr Panday's invitation to create a government of national unity, being more concerned, in the wake of the PNM's defeat 15 months ago, to fight off a rebellion against his leadership.

Faced in 1995 with a reduced majority in parliament, caused by the deaths and resignations of government members, Mr Manning surprised even some of his colleagues by calling a general election a year before it was due. Although having won 21 of the 36 seats in the December 1991 election, the government had found itself with only 17 seats and with no indication that it would be supported by any of the splintered opposition. Its popularity was also dented by a burlesque political episode, in which the Speaker of parliament was placed under house arrest and a state of emergency declared in her neighbourhood.

Mr Manning's lieutenants were not pleased at his election timing, and even less so by the result. The party was

A.N.R. Robinson: formed a coalition with the ruling UNC

Patrick Manning: fought off a rebellion against his leadership

split by the challenge to his leadership which Mr Manning said is now part of the PNM's history.

"There was a contest for the leadership of the party and that was resolved," he said. "We are making efforts to ensure that there is no lingering residual animosity." He said he did not regret calling the election early. "Had we left it later, the result would have been worse for the PNM."

Mr Manning however has received a further blow in the last week with the defection by a PNM member of parliament to the UNC. With Mr Robinson's election to president, that leaves the governing coalition with a 19-16 majority, and a by-election in Tobago pending.

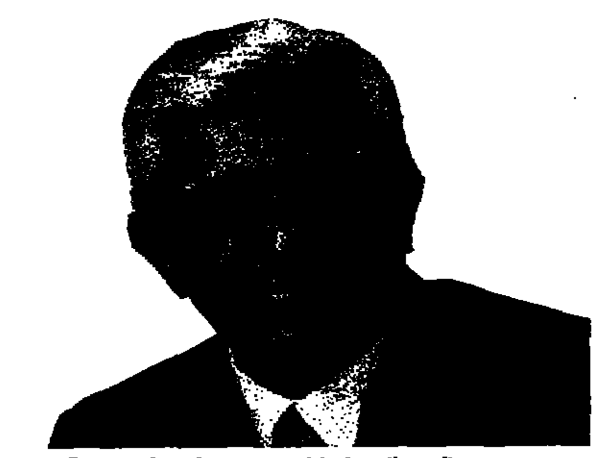
Mr Manning said he has plans to rejuvenate the party, making it more "people and service oriented". He also wants changes to the way in which political parties are financed. He maintains the present system may force a winning party to compromise its policies to favour those who gave it financial support.

"I agree that governments should not be compromised because of the financial support to political parties," said Mr Panday. "But campaigns are expensive, and this problem could be solved by limiting contributions and having accounts open for scrutiny."

An attempted coup in 1990 by members of the Jamaat al Muslimeen, an Islamic group, paralysed the country for several days when the prime minister and several cabinet ministers were held hostage. This was not generally accepted as a national desire for a radical change in political direction.

In other circumstances, this attempted coup, and three changes of government in 10 years might have contributed to instability. Business leaders have taken comfort, however, from the fact that the transitions have been mostly seamless, and that economic policies have been little changed. There is no conscious pact among the political parties on economic policy, said Mr Panday. It is common sense.

He does, however, have wider concerns. "There is a problem with the Westminster system which, in its pure sense, is not suited to deal with racial, tribal and ethnic cleavages. It has not worked in Africa, for example. That is why I have proposed, and will continue to propose, a government of national unity, involving the other parties."



Basdeo Panday: there is an attempt to fuse the cultures

A perennial concern for governments has been suggestions that Tobago should have greater autonomy. The calls have not seriously suggested secession, and do not yet threaten the integrity of the state.

However, as the effective leader of Tobago, Mr Robinson is well aware of the potential danger. "The situation with Tobago so far has been difficult, but well managed. There should be no separation of the islands, there are important mutual benefits. Most of the territorial sea and the spread of the exclusive economic zone is because of the location of Tobago. Tobago benefits from the proximity of Trinidad's markets and resources. These are important synergies."

FINANCIAL SERVICES • by Stephen Fidler

Exchange rate raises questions for banks

A lack of rules has helped to give rise to a very aggressive business culture

Few gatherings of Trinidad's business community conclude these days without a discussion of the exchange rate question. The local dollar has been floating since 1993, but people do not seem to have become accustomed to it. Why, they constantly ask, with investment pouring into a country with a long-standing trade and current account surplus, has the TT dollar been so weak?

The answer may lie in the increased dollarisation of the economy since the currency's flotation, the small numbers of dollar sellers compared to buyers, and the fact that only a small proportion of the inward investment – most of it in the energy industry – is made in local currency. However, when discussion turns to the exchange rate, before long, somebody is accusing the banks of manipulation.

Central bank and commercial banks admit they consult on the foreign exchange market. "We have found it necessary to maintain a dialogue," said Mr Ainsworth Harewood, the governor of the central bank, "because the stability of the market depends on consistency of behaviour."

But the accusation of manipulation makes commercial bankers see red. "There is no behind-the-scenes manipulation of the foreign exchange market. Commercial banks are the most regulated institutions in the economy, and we have to submit reports on a daily basis to the central bank," said Mr Ronald Harford, managing director of Republic Bank, the largest bank.

Bankers claim that, far from being on easy street, their business is getting tougher and there will have to be less cross subsidy of some services by others. "Competition has driven down the comfort zone... We haven't moved our prices to the level that looks like the cost. Services are going to have to stand on their own," said Mr Harford.

Republic dominates the market with two other commercial banks – Royal Bank and Bank of Nova Scotia. Citibank has a strong presence in wholesale banking – particularly in providing finance for the oil and gas sector. A long-awaited clean-up of the government-owned First Citizens Bank – which may prove expensive – is awaited before privatisation.

The financial system has recovered significantly from the stresses of the late-1980s, when seven non-bank financial institutions closed and one bank fell into difficulty. There remain some concerns, however, about the concentration of some banks' assets with one or two large customers.

Furthermore, a high reserve requirement of 22 per cent – down from 23 per cent last month – adds significantly to the cost of bank credit. The central bank conducted its first open-market operation last September in an attempt to move away from reserve requirements as the chief instrument of monetary management.

However, there is wide agreement that the rest of Trinidad's financial sector needs better regulation – both for prudential reasons and to equip it better to serve the economy. A lack of rules has helped to give rise to a very aggressive business culture. "Regulation is a big issue," said Mr Adam Hodgkins, managing director of Fleming Ansa Merchant Bank.

Changes are being proposed to securities, companies, insurance and other legislation. Insider trading, for example, is not illegal and not uncommon. Insurance companies have been allowed to concentrate investments in a manner unacceptable in most regulatory regimes. The country's companies legislation dates back to 1929.

Corporate disclosure rules are minimal. Company accounts jump from the gross sales line to the profit line, without intermediate explanations, and companies report only half yearly.

The 1981 securities law – soon to be replaced – has been ruled unconstitutional, which gives the stock exchange almost no legal control over the activities of traded companies.

A new securities law will give responsibility for the secondary market to the stock exchange, and primary market activity to a new securities and exchange commission. This should reduce opportunities for insider trading. "The new law is quite clear. I think the problem should be remedied to a certain extent," said Mr Hugh Edwards, general manager of the stock exchange.

The stock exchange last year joined the International Finance Corporation's Frontier Index – the World Bank affiliate's index for the newest "emerging" markets. It ended 1996 with a capitalisation of US1.4bn.

Equity capital is required by some important companies, including banks needing to boost their capital base. Royal and Republic banks are said to be in need of capital, while Caribbean Ispat, the Indian-owned steel plant may also make an initial public offering.

One important potential development is the integration of Caribbean stock markets. Under a project funded by the InterAmerican Development Bank, the exchanges of Trinidad and Tobago, Barbados, the Bahamas, Jamaica and the Dominican Republic are discussing harmonisation. By July, a common securities depositary will be established.

TOURISM • by Stephen Fidler

Caribbean holiday with a difference

While Trinidad lacks a tourism tradition, Tobago has an unhurried charm

Some 20 years ago, at the height of Trinidad's oil boom, a British businessman and his wife arrived at the Hilton Hotel in Port of Spain. The doorman refused to pick up their suitcases from the hotel drive, where the taxi driver had left them. He indicated that his responsibility for luggage ended at the kerb, and explained: "I don't pick bags up from the road." Only after the couple had moved the bags the few feet to the footpath did the doorman collect them.

Service at the Hilton has improved considerably since then, but the story illustrates an enduring obstacle to attempts to diversify the economy by developing tourism. "Trinidad's biggest challenge may be the psyche of the community," says Cliff Hamilton, a Bahamian brought in as director of tourism at the government's Tourism and Industrial Development Company. "There was a great disdain for tourism in some cases."

Trinidad and Tobago's share of the Caribbean tourism market has always been small. Travel and tourism is estimated to have added $27bn to the gross output of Caribbean economies, 24.5 per cent of the region's gross domestic product, and 1m jobs – 18.1 per cent of employment. Of this, the country's share has been static at less than 2 per cent, and of the Caribbean cruise market less than 1 per cent. There were 112 ship calls at the two islands last year bringing 48,145 passengers, a figure which may increase further now that the head tax for passengers has been cut from US$10 to $5.

Tourist arrivals rose modestly to 260,000 in 1995. US visitors accounted for 38 per cent of arrivals, Canada almost 14 per cent, Europe 20 per cent of which the UK made up nearly half, and 21 per cent from other members of the Caribbean Community.

According to a study by the Caribbean Tourism Organisation, the sector contributes 1.4 per cent of gross domestic product and 1.9 per cent of jobs.

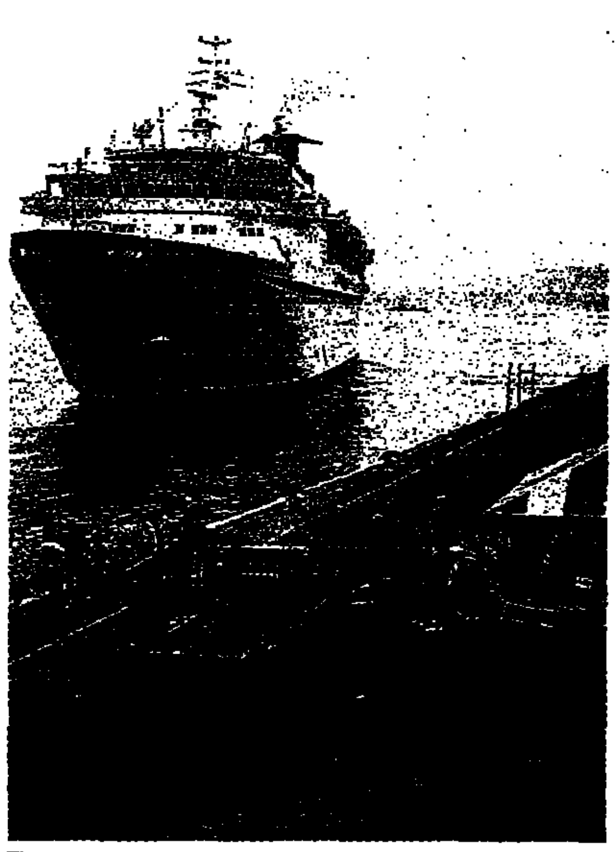
Apart from the lack of a tourism tradition, another challenge is how to position Trinidad in the market, says Mr Hamilton. A large part of the island is industrialised, and Port of Spain is a working port city. There are beaches, rain forest and attractions such as the famous pitch lake on the island, but not enough to satisfy seekers after the traditional "sun, sea and sand" Caribbean holiday, he says. The answer has been to advertise the capital city itself to visitors, in particular its varied cultural life which includes the exotic pre-Lent carnival.

The smaller island of Tobago, however, has all the attributes of the traditional Caribbean destination and has an underdeveloped, unhurried charm. The government has already had some success in attracting direct flights to the island, and British Airways may well add a weekly stop in Tobago this year.

"It has the advantage of being a late entrant and can learn from the mistakes of other Caribbean economies, particularly to develop the idea of sustainable tourism that would prolong its benefits," said Dennis Pantin, a senior economics lecturer at the University of West Indies.

Tobago needs the industry to soak up unemployment on the island, which is running at some 16 per cent of the workforce, and to stop migration, said Paul Woodley, manager of Tidco's Tobago office. But the island's ecosystem – including its coral reefs and rain forest – is delicate and Tobago could never become a mass destination without destroying its attractions. Others say that it will be a long time before Tobago's laid-back workforce develop the necessary skills.

Mr Pantin says he is not convinced that all the lessons from other parts of the Caribbean are being taken on board. However, developers such as John Jefferis, the Bermudan who owns the 135-room Coco Reef Resorts, which he developed from a derelict hotel, insist developers have gone to great lengths to minimise environmental damage. No sewage from his hotel is discharged into the ocean.



There were 112 ship calls at the two islands in 1996

Mr Jefferis said tourism would benefit if US visitors were allowed to enter the country, as they can most other Caribean destinations, without a passport.

At least nine large potential Tobago hotel sites are in development or for sale in connection with hotel projects. Many are seeking joint venture partners for all or part of the development.

The most advanced is the Lowlands Estate project of the Angostura Holdings and Guardian Life companies on a 750-acre plot on the island's windward side.

This includes a 27-hole golf course – there is only one on the island – the first marina on Tobago, and a Hilton hotel, the first on the island by a large chain connected to an international reservations system.

The project has had its share of difficulties. Angostura bought the land in 1991, and the development has been subject to delays. Now, says Mr Ian McLachlan, chief executive officer of Angostura, "it is coming together very well".

The government has proposed a legalisation of casino gambling, but this has proved controversial. Critics say this is wrong for the islands and threatens to worsen an already serious drugs problem by facilitating money laundering.

CORPORATIONS • by Canute James and Stephen Fidler

Reforms on the way

End of boardroom row signals start of a review of corporate affairs

With the dust settling in the wake of an amicable resolution of the country's largest corporate battle, the Trinidad and Tobago government is planning a reform of the regulations governing corporate affairs.

"We are reviewing all the laws which affect financial institutions," said Mr Brian Kuei Tung, the finance minister. "By the end of the year we will have a new policy in place. We did not want to appear to be pressured into action while the two large companies were involved in a row. The atmosphere is now more friendly." The Companies Act, legislation creating a Securities Exchange Commission, and the controversial issue of capping shareholding in banks are now under review.

The row was an eight-year battle between Republic Bank, the largest bank, and Colonial Life, an insurer which with a stake of 38 per cent is Republic's largest shareholder. Colonial contended that it was not being adequately represented on the board. Republic claimed that the insurer, which has been expanding throughout the Caribbean, was bent on a hostile takeover.

CL Financial, Colonial's parent company, said it was happy with the 10-year pact which has given it proportionate representation on Republic's board. Republic Bank spokesmen said they were relieved that their concerns about the bank's independence and integrity had been satisfied.

The prolonged fight between two of the country's largest companies had caused concern, but the government refused to give in to pressure to intervene. "We wanted them to sort it out themselves," said Mr Basdeo Panday, the prime minister.

The boardroom row also raised questions about the concentration of economic power in a few companies. CL Financial is one of the Caribbean's better known conglomerates. In addition to being Trinidad and Tobago's leading insurer, it is involved in commercial banking, construction, supermarkets, sugar and methanol production and logging in several countries in the region. A private company, CL Financial, has been "very profitable", reporting assets of TT$4bn, said Mr Peter Salvary, group executive director.

As the largest commercial bank in Trinidad and Tobago, Republic has a deposit base representing 40 per cent of the country's commercial banking assets. In the year to September 1996, Republic reported total assets of TT$10.7bn. It had an after-tax profit of TT$136.8m, an increase of 25 per cent.

However, the most competitive relationship in the country may be that between Colonial and Ansa Mcal, which has been turned into one of the region's most dynamic trading groups by Mr Anthony Sabga, a 74-year-old immigrant from the Middle East who took over the troubled McEnearney Alstons in 1986. With interests as diverse as beer, car distribution, building materials and bleach, Ansa Mcal also teamed up with the UK merchant bank Flemings to form the country's only merchant bank.

Mr Sabga and Mr Lawrence Duprey, chairman of CL Financial, may be the wealthiest men in the English-speaking Caribbean.

Angostura, internationally known for its aromatic bitters, but also one of the Caribbean's leading rum producers, owns 20 per cent of Neal & Massy, a traditional conglomerate that has fallen on harder times. Neal & Massy has just announced a TT$100m write-down of assets, close to 20 per cent of its net worth, and has suffered in part from a poorly managed takeover of the Jamaican company, Geddes Grant.

Having taken the write-downs, and with Mr Jesus Pazos stepping in to replace Mr Sidney Knox as head of the company, shareholders are hoping the worst is over.

CL Financial's recent purchase of Bacardi Grand Cayman has given it a 65 per cent stake in Angostura, intensifying the intertwining networks of ownership which have encouraged very aggressive corporate culture with almost no effective legislative controls.

This is reflected in the operations of the stock exchange, whose rules are too often not taken seriously. "There is a debate about the manner in which the legislation was passed," said Mr Hugh Edwards, general manager of the Stock Exchange.

The concentration of economic power in a few hands "does put the government in an awkward position," said Mr Kuei Tung.

NON-PETROLEUM SECTOR • by Canute James

Accent on diversification

The sectors attracting attention are light industry, tourism and agriculture

Among the many statistics produced by Trinidadian officials to demonstrate the continuing recovery of the economy after a decade in a parlous condition, one of the more telling is last year's 3.6 per cent growth in the non-petroleum sector.

"This is twice the rate of the expansion in the petroleum sector, and is of particular significance since it is the non-oil sector which is the main source of the growth in employment," explained Mr Brian Kuei Tung, the finance minister.

The rate of unemployment at 15.1 per cent is a serious problem for the government. Significant investments in the energy sector are capital intensive and do not create many jobs. Although the economy will remain heavily dependent on hydrocarbons for the next few decades, successive governments have been encouraging investments in other sectors, such as light industry, tourism and agriculture.

"Over the past four years there has been a 27 per cent growth in non-oil exports," said Mr Andre-Vincent Henry, vice-president of Tourism and Industrial Development Company (Tidco). "Some specific targets for further expansion are garments, food processing, fish and floriculture. They provide quick employment. There are also good prospects for offshore financial services and the information industry and the development of marine services."

Ironically, the first effort at diversifying the economy almost backfired. A steel plant at the Point Lisas Industrial Estate was intended to show the way forward for the oil-based economy. It struggled for nine years, with accumulated losses of $500m, until it was taken over by Caribbean Ispat, a subsidiary of Ispat International of India.

"After leasing the plant for five years, we bought it in 1994 for US$101m," said Mr Ram Misra, managing director of Caribbean Ispat. "When we came here the plant was half dead. We injected $60m to rejuvenate it and lift production to 700,000 tones per year. Ispat is now the largest export earner in the non-oil sector. We plan to invest $250m to produce 1.5m tonnes a year."

Other efforts at diversifying from the hydrocarbons sector have been more modest, and led mainly by younger businessmen using new technology and creating alliances with foreign companies, reported Ms Ria de Gannes, industrial manager of the Trinidad and Tobago Manufacturers' Association.

In the wake of the structural adjustment of the economy which followed the difficult years of the 1980s when oil prices collapsed, Trinidadian manufacturers were able to make the most of the deregulated environment. This helped to cushion the pain that was experienced in neighbouring countries which also implemented adjustment programmes.

Extensive retooling, and a search for foreign connections and markets left light industry in a fortuitous position to take advantage of the more liberalised economy. Trinidad and Tobago exporters made the most of the market of 6m offered by the 14-nation Caribbean Community (Caricom). The country enjoys a healthy trade surplus with its neighbours.

"Trinidad and Tobago has the most competitive and aggressive manufacturing sector in the region," said Ms Carmena Baird, general manager of the Trinidad and Tobago Chamber of Industry and Commerce. "We have bitten the bullet and we have started to climb again."

Business people still have some concerns, however. These include bureaucratic delays, although the situation has improved in the past few years. The cost of money, with prime rate at 15 per cent, is comparatively high, but it is less than the rates in some neighbouring countries, said Ms Baird. "We still have some hiccups in electricity, but it is much better than it used to be."

Tourism, traditionally confined to Tobago, and ignored in the years of plenty, is being encouraged.

However, it is in agriculture that the government sees the best chances of speeding up the diversification of the economy and increasing employment. "The government has to take the lead in the development of agriculture," said Mr Basdeo Panday, the prime minister. "We have to be crop specific. We are a small country and farmers do not have the resources to achieve economies of scale, guarantee regularity of supplies and meet quality demands. The government has to identify markets and encourage farmers into production groups which are large enough."

There are early indications of a change. Output in agriculture, which declined by 4.7 per cent in 1995, increased by 7 per cent last year, said Mr Reeza Mohammed, the minister of agriculture.

Grandmother of Europe

Frederick Stüdemann on Queen Victoria's family paintings in Berlin

Anyone wanting a quick demonstration of why Queen Victoria was dubbed the *Grandmother of Europe* need only look at Laurits Tuxen's painting "The Family of Queen Victoria." Painted in 1887 to mark the queen's diamond jubilee, the family scene shows a monarch-as-matriach surrounded by representatives of most of Europe's royal houses.

Tuxen's picture is currently in Berlin where it marks the opening to an exhibition at the Deutsches Historisches Museum (DHM) called *Victoria & Albert, Vicky & The Kaiser*. The organisers see the exhibition as "a study of a chapter of Anglo-German family relations."

At the centre of the exhibition, which has borrowed heavily from English collections, are four people: Victoria, herself of German descent, who married to a German prince and their daughter, Vicky, who married Frederick, Crown Prince of Prussia.

From this starting point the exhibition builds a series of links between Britain and Germany, from London's influence as a centre of industrial power and liberalism to Prince Albert's good works and committed patronage of education and the arts.

With numerous portraits by Winterhalter, a smattering of regal jewels and costumes, the exhibition is probably nothing special for British people used to school trips traipsing around museums and palaces. For Germans, however, such displays are a rarity. For those from former east Germany, where the DHM is located, it is probably a first.

Beyond the costumes and pretty pictures, the exhibition also successfully addresses the geo-political element of this family tale. The marriage of Vicky and Frederick in 1858 could be seen as a highly astute move on Britain's behalf which almost payed off. At the time Prussia was still viewed as a second-rate continental power and many in London wondered if Queen Victoria was not allowing her daughter to marry below rank. But 13 years later the Prussian royal family had, thanks to the skilful machinations of Bismarck, placed itself at the centre of the newly created German empire.

The possibility of using family connections to influence developments in this parvenu power were certainly explored. Frederick was influenced by his wife's liberalism and harboured ambitions to reform the Prussian and German monarchies. Together with his brother-in-law Edward and the Austrian Crown Prince Rudolf, Frederick made up a trio of young heirs to whom many looked as agents of change.

Such hopes were never realised as all three suffered from the longevity of their parents. Edward turned idle pleasure into an art form. The high-spirited and unhappily married Rudolph killed himself. By the time Frederick, whose reforming instincts were effectively opposed by Bismarck, succeeded his father as German emperor in 1888, he was already terminally ill.

Ninety-nine days later he was dead and the crown passed to his son Wilhelm who took Germany down a path of increasing chauvinism and antagonism towards Britain. Kaiser Wilhelm, who first acquired a taste for maritime matters from playing with toy ships on childhood visits to his grandmother, made naval power one of the main focal points for the increasing rivalry between Germany and Britain. The terminus of that policy was the first world war which drew a battle line between many of those portrayed in Tuxen's family scene.

The organisers were keen that the exhibition go to London. But apparently this was not possible for reasons of time and space. Privately, some at the DHM wonder whether British reluctance to host the exhibition has other, more political, reasons. Given the present state of Anglo-German relations, on and off the football field, it seems that now might not be the best time to highlight the very Germanic roots of the House of Windsor.

Exhibition at Deutsches Historisches Museum, Zeughaus, Unter den Linden, until March 25.

Political marriage: Crown Princess Victoria in 1875

Concert/Andrew Clark

Stravinsky kicks off the century

The BBC's giant 20th-century retrospective got off to a stupendous start on Sunday at the Royal Festival Hall with a Stravinsky programme conducted by Pierre Boulez. *Sounding the Century* will run till the end of 1999, embracing a vast spectrum of events throughout the UK – most of them broadcast live. It is a project of evangelical ambition, because it aims to waken as many people as possible to the extraordinary richness of musical creation in our dying age.

Whether the all-Stravinsky, all-Debussy or all-Ravel strategy is the right way to go about it is a moot point. London's concert planners seem obsessed by the dead composer blockbuster – no doubt because, for some strange reason, concerts are easier to sell that way. Simon Rattle's mixed approach in Birmingham, *Towards the Millennium*, makes more artistic sense.

But the opening Stravinsky programme, the first of 10 (!) devoted to this composer over the next six weeks, had a logic of its own. It included a work to whose influence so much of this century's music can be traced: *The Rite of Spring*. And by preceding it with two less familiar pieces from the same period, it showed where Stravinsky's roots lay and what an explosive impact *The Rite* had on his style.

Boulez stressed the point in *The Nightingale*, Stravinsky's early operatic miniature, by moving from the first act to the second with barely a moment's pause. There, encapsulated in a sudden, shrill blast from the whole orchestra, lay the transition from Russian impressionism, with its subtly blended sonorities *à la* Rimsky and Debussy, to the trail-blazing objectivity of *The Rite* and its successors.

For the rest of the performance, the work's broken-backed style – Act 1 was completed before Stravinsky's early Parisian successes, Acts 2 and 3 immediately after *The Rite* – seemed less significant than the unifying force of his pictorial imagination. There is enough of the old world – the exotic woodwinds, the soprano coloratura, the Fisherman's song – to carry forward to the new. This is an inner landscape, a landscape of the soul, which has no need of the stage, a point underscored by the subtly animated solo contributions of Ewa Malas Godlewska, Wolfgang Bünten and Jean-Luc Chaignaud.

After the interval came *The King of the Stars* for men's voices and large orchestra, a six-minute curiosity whose Musorgskyan idiom and harmonic adventurousness make it a halfway-house between *The Nightingale* and all that was to follow. The BBC Symphony Chorus made light of its horrendous pitch problems.

And so to *The Rite*: Boulez's approach may have become less clinical over the years, but the deadly effectiveness of his technocratic podium style has not changed. What counted in this exhausting, exhilarating performance by the BBC Symphony Orchestra was his ability to clarify the manifold layers and colours of the music, to underline its incredible modernity, and to reassert its power to shock.

Carmen without fake Spanishry

No one will be taking home snapshots of Seville from Welsh National Opera's new *Carmen*, which opened in Cardiff at the weekend. There is no street colour in Act 1, no fiesta in Act 2, nothing but a dim spotlight in Act 3 and ne'er a glimpse of toreadors in Act 4. The same raw set, the same abstract wash of flame-and-earthen paint, suffice for the entire evening, and Carmen dies alone, spreadeagled beneath the same giant passion-flower which has served as drop-curtain all evening.

Despite its low-budget appearance, this *Carmen* is a lot more authentic than the fake Spanishry under which Bizet's opera usually masquerades. The principals are believably young, baring emotions with which we can identify. There may not be a Gallic tongue among them, but their French is more than passable, and the spoken dialogues have the freedom of conversation. Decor and costumes tell us everything we need to know about the heat and colour of southern Spain, and let's be honest: when an orchestra plays the music as well as this, we can do without scenic snapshots, because everyone takes the tunes home with them instead.

So WNO's *Carmen* – conducted by Robert Spano and staged by Patrice Caurier and Moshe Leiser – has its heart in the right place. Unfortunately, that is not quite enough. The French production duo, and their designers Christian Fenouillat, Agostino Cavalca and Christophe Forey, may have sifted out everyone else's clichés, but they haven't come up with strong enough ideas of their own. The result is dark, austere and curiously inhibited – the very qualities *Carmen* is supposed to deny. The *habanera*, for example, is a motionless, emotionless act of self-communion, the Toreador Song more a sermon than a swaggering serenade. The veil of stiffness lifts for the Act 4 crowd scene, but the final dénouement is an anti-climax.

This is not a world in which blatant sexuality can assert itself. Sara Fulgoni's Carmen may take the initiative in her intimate Act 2 rendez-vous with José, but she never convinces us that Bizet's heroine is anything more than an attractive working girl who wants to keep her options open. Fulgoni's dark-edged timbre suits the part; with more experience and the right director, she may grow into it. John Daszak's José and Bruno Caproni's Escamillo are both unvarnished sketches, honestly sung; Alwyn Mellor is the promising Micaela.

On opening night, Spano and the WNO orchestra alone seemed to have the measure of *Carmen*. There were countless details to savour, notably in the inner woodwind voices, but most impressive of all was Spano's sense of dramatic pace and colour, subtly tailored to the stage performance. This *Carmen* may not tell the whole story, but it has enough going for it to be worth catching on tour at Bristol, Birmingham, Southampton, Liverpool or Swansea over the next two months.

A.C.

Alastair Muir

Dark-edged timbre: Sara Fulgoni in the title role

Musical/Ian Shuttleworth

Semi-dramatic 'Cliff

To begin by unveiling a dark personal secret: I was in fact born on the birthday of, and at my sister's importunity named after, former Shadows bassist Terry "Jet" Harris. I might therefore be assumed to be almost genetically predisposed towards Cliff Richard, and indeed – having read the savage press reception given to *Heathcliff* on its Birmingham opening last autumn – I turned up at the Hammersmith Apollo with a certain determination not to bay for blood.

For *Heathcliff* is not a disaster in the league of *Bernadette* or *The Fields of Ambrosia*. Nor is it in their league in any sense: it was never intended to be a stand-alone stage musical, but was conceived by Sir Cliff as a dramatic vehicle for himself ... well, semi-dramatic, then. Cliff, for all his stage and screen forays, is not an actor; what he does possess, after 40 years of experience, is a consummate skill at taking attitudinal cues from musical or lyrical moments and striking great shapes.

His performance is entirely rooted in the songs, and in his own songs at that; when forced to lower from the side of the stage during other numbers he is frankly a little lost, and when reduced to the spoken word he is hamstrung by an erratic accent and an implausibly smouldering manner – not that he cannot smoulder, simply that no one suspends disbelief for an instant in his gruff bearded persona. The gasps of shock previously reported at the moment when Cliff, or rather, 'Cliff, strikes his pregnant wife were entirely inaudible last Thursday evening.

So were many of Tim Rice's lyrics. The Apollo is more intimate than the Indoor Arena in Birmingham, but even a dozen rows from the stage, most performers' lower registers were drowned by the band. Those words which could be caught included a fair crop of prime Rice-isms, I particularly liked "Don't think this match is suitable – Though you may be inscrutable" – and this *before* the gratuitous sequence depicting Heathcliff's globetrotting, which amounts to no more than an excuse to wack in some African tribal masks and a Chinese-lion dance.

Director (and co-author) Frank Dunlop seems to have given up at an early stage on any notions of theatre. Performers are consistently arranged in tableaux rather than dynamic scenes; now and again these images consist merely of a few people standing bolt upright against Joe Vanek's high-tech atmospheric moor, complete with revolving crag and over-projections of selected sentences from Emily Brontë's novel. Long-time associate John Farrar knows precisely how to write Cliff-friendly music, but not much of it is memorable on a solitary hearing – the hit single "A Misunderstood Man" lodges in the memory largely by dint of having been reprised a few times. The only other real musical highlight is some fine guitar playing by 1970s one-hit wonder Gordon Giltrap as (for no very good dramatic reason) "the Troubadour".

Among the rest of the cast, Helen Hobson stands out not only by reason of playing Cathy but because her excellent singing voice combines with the only perceptible acting which goes on in two and half hours. Otherwise, for all its glittering spectacle, this is scarcely more a stage musical of *Wuthering Heights* than David Bowie's "Diamond Dogs" tour a couple of decades ago was of *Nineteen Eighty Four*. It has all the brooding menace of the millennium dome; after the incongruous clap-along curtain-call, the audience files out past a merchandising stall selling *Heathcliff* fridge magnets and, yes, *Heathcliff* teddy bears.

At Labatt's Apollo Hammersmith, London W6 (0171 416 6050).

INTERNATIONAL ARTS GUIDE

AMSTERDAM

EXHIBITION
Tropenmuseum Tel: 31-20-5688215
● Irian Jaya: exhibition of *photographs and objects from the* museum's collection focusing on the changes and developments in *Irian Jaya*, (which forms the western part of New Guinea), since the first encounters in 1903 between the Dutch and Papua tribes living there; to Oct 19

BERLIN

CONCERT
Konzerthaus Tel: 49-30-203090
● Berliner Sinfonie-Orchester: with conductor Walter Weller perform works by Mozart, Haydn and Bruckner; 8pm; Feb 20, 21, 22

OPERA
Staatsoper Unter den Linden Tel: 49-30-20354438
● Tancredi: by Rossini. Conducted by Fabio Luisi, performed by the Staatsoper Unter den Linden. Soloists include *Jeffrey Francis, Gloria Scalchi and* Kwangchul Youn; 6.30pm; Feb 19

DRESDEN

DANCE
Sächsische Staatsoper Dresden Tel: 49-351-49110
● Rot und Schwarz: *choreographed by Uwe Scholz to* music by Berlioz, performed by the Ballett Dresden; 7pm; Feb 21

EXHIBITION
Albertinum Tel: 49-351-49140
● 4x1 im Albertinum: exhibition featuring works by four contemporary artists: Raffael Rheinsberg (Germany), Nan Hoover (US), Maria Lassing (Austria) and Luc Tuymans (Belgium); to Apr 6

DUBLIN

CONCERT
National Concert Hall Tel: 353-1-6711888
● London Mozart Players: with conductor/pianist Howard Shelley perform works by Grieg, Mozart, Elgar and Schubert; 8pm; Feb 21

EXHIBITION
National Gallery of Ireland Tel: 353-1-6615133
● Frederick William Burton: *exhibition drawn from the gallery's* collection and placing Burton's most popular piece, "The Meeting on the *Turret Stairs*", *in the* context of his work; to Apr 6

HUMLEBAEK

EXHIBITION
Louisiana Museum of Modern Art Tel: 45-49 19 07 19
● Men and Gods: exhibition featuring 200 objects of religious *and mythological significance* found by architects in China over the last two decades. The *collection includes bronze heads* from the period 1200-1000BC, a jade suit belonging to Prince Liu Sheng (from 200BC), burial offerings from the Shang period and ceramics from the time of the Han dynasty; from Feb 21 to May 25

LIVERPOOL

EXHIBITION
Walker Art Gallery Tel: 44-151-2070001
● Sir Charles Reilly and the Liverpool School of Architecture: exhibition examining the work of Sir Charles Reilly, architect and professor at the Liverpool School of Architecture from 1904-1944 and influential figure in the history of 20th century British architecture. *The exhibition looks* at his own buildings, those of his students and his wider influence *in Britain and overseas; to* Feb 28

LONDON

CONCERT
Queen Elizabeth Hall Tel: 44-171-9210600
● London Sinfonietta: with *conductor George Benjamin and* flutists Sophie Cherrier, Sebastian Bell and Helen Keen perform *works by Varèse and Boulez;* 7.45pm; Feb 21
Royal Festival Hall Tel: 44-171-9604242
● *London Philharmonic* Orchestra: with conductor Paavo Berglund and pianist Stephen *Kovacevich perform* works by Mozart and Dvorák; 7.30pm; Feb 19
Wigmore Hall Tel: 44-171-9352141
● Pieter Wispelwey: the cellist performs works by Bach; 6pm; Feb 19

LOS ANGELES

EXHIBITION
The J. Paul Getty Museum Tel: 1-310-459-7611
● Manuscript Illumination of the Thirteenth Century: exhibition of 19 works from the museum's collection of European illuminated manuscripts exploring the art of painting in books in the 13th century. Many artists from this period achieved dramatic new effects *with a combination of* reflective gold and saturated, jewel-like colour. A recently *acquired set of canon tables by* the Armenian artist T'oros Roslin illustrates the richness of this *technique*; to Apr 6

NAPLES

EXHIBITION
Museo di Capodimonte Tel: 39-81-7441307
● Continuità: an exhibition featuring a large group of 20th century artists from the collection of the Stedelijk Museum, Amsterdam. On display are works by Van Gogh, Matisse, Picasso, Chagall, Mondrian, De Kooning, Nauman and Warhol; to Apr 6

NEW YORK

AUCTION
Sotheby's Tel: 1-212-606-7000
● Contemporary Art/ Impressionist Art: this sale includes Alex Calder's "Untitled", Andy Warhol's "Janet (A Double Portrait of Janet Villella)" and Joel Shapiro's "Untitled (J.S. 1012)"; 10.15am & 2pm; Feb 19

EXHIBITION
The Metropolitan Museum of Art Tel: 1-212-879-5500
● Christian Dior: exhibition presenting the achievements of Christian Dior, who in the years from 1947 to 1957 laid the foundations of postwar fashion. Beginning with the 1947 New Look, Dior gave the period its most important fashion icon of renewal and optimism. The *exhibition is drawn primarily from* the collection of The Costume Institute and includes more than 80 pieces; to Mar 23

PARIS

CONCERT
Théâtre des Champs-Elysées Tel: 33-1 49 52 50 50
● Alban Berg Quartet: perform works by Schubert. Part of the Schubertiade; 8.30pm; Feb 20

EXHIBITION
Centre Georges Pompidou Tel: 33-1-44 78 12 33
● La Photographie Contemporaine Dans les Collections Nationales: exhibition featuring photographs by contemporary artists such as *Christian Boltanski, Alain* Fleischer, Annette Messager and Helmut Newton; to Mar 31
Musée d'Orsay Tel: 33-1 40 49 48 14
● Le paysage américain photographie (1861-1890): photography exhibition documenting both the early years of the art and the adventures of American explorers, captured in wild landscapes such as Niagara Falls; to Mar 2

OPERA
Théâtre National de l'Opéra - Opéra Garnier Tel: 33-1 42 66 50 22
● Pelléas et Mélisande: by Debussy. Conducted by James Conlon, performed by the Orchestre et Choeurs de l'Opéra National de Paris. Soloists include Russell Braun, José van Dam, Victor von Halem and Cassandre Berthon; 7.30pm; Feb 19, 21

VIENNA

EXHIBITION
Kunstforum der Bank Austria Tel: 43-1-5320644
● Art of the Mentally Ill: exhibition focusing on 20th century art created by the mentally ill through 200 paintings, graphics and sculptures. The exhibits include works by Paul Klee, Max Ernst, Wölfli, Dubuffet and Arnulf Rainer; to Feb 23

Listing compiled and supplied by ArtBase The International Arts Database, Amsterdam, The Netherlands. **Tel: 31 20 664 6441. E-mail: artbase@pi.net**

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10.00
European Money Wheel

18.00
Financial Times Business Tonight

Philip Stephens

Curious crusade

John Major will win few votes by rejecting constitutional change, but reform will be harder than Labour believes

Last summer Robert Cranborne was asked by the prime minister to write a speech on the subject of the British constitution. A scion of the house of Cecil and heir to the Marquess of Salisbury, Lord Cranborne is as High Tory as they come. He knows his constitutional history.

By all accounts, the draft combined intelligence with elegance. There was nothing sensational. His thoughts on the elusive body of principles, institutions and statutes which make for the nation's unwritten constitution were imbued with characteristic Tory pragmatism. The continuance of past tradition demanded a certain flexibility in the present.

Yet John Major rejected it. Lord Cranborne's musings on reform of the two houses of parliament were too radical for his master's taste. Mr Major was more comfortable with a call to arms in defence of the constitutional status quo. His mission, as he said more recently, was to uphold 1,000 years of history.

It is a curious crusade. The immutability of the British constitution is a myth. It has been brilliantly exploded by Ferdinand Mount, the foremost Conservative commentator on the subject.* Over the centuries, there have been huge upheavals in the balance of power between monarch and parliament, church and state, Lords and Commons.

The United Kingdom was not born of some neat blueprint. Wales and Ireland were conquered. The Act of Union of 1707 left Scotland with distinct judicial, ecclesiastical and education systems.

The net result is a constitution full of jagged edges, of anomalies and asymmetries. It is constantly changing. As Lord Cranborne has said: "Politics is about illusion and continuity: sometimes about the illusion of continuity." For politics, read the constitution.

It is hard to imagine the voters are much moved by any of this. The niceties of the constitution do not slip easily into the discourse of the saloon bar. Mr Major, though, thinks otherwise. During the dying days of the 1992 election campaign he warned that Labour's agenda imperilled the Union of England, Scotland, Wales and Northern Ireland. Colleagues considered the strategy cranky. But Mr Major won. The voters, he concluded, had listened.

So perhaps we should not be surprised that he has raised the spectre again. Tony Blair's New Labour has closed the gap on almost every other issue. It has bought the market economy. On crime and social policy, it sounds every bit as depressingly illiberal as the government.

Only on the constitution can Mr Major see clear blue water. New Labour would set up a parliament in Scotland and an assembly in Wales. It would strip Lord Cranborne and his chums of their hereditary ticket to the House of Lords. More sovereignty would be ceded to Brussels. This apocalypse would see power haemorrhaging from Westminster to regional governments at home and to a superstate across the channel.

> A Scottish parliament may prove useful in the strategy of playing on the voters' fear of change. But this is small beer against taxes

There is more than a coincidence in the link between Europe and devolution. The Tories embraced constitutional reform in the 1960s, not long after their conversion to the European cause. Edward Heath promised Scotland a parliament in 1968.

Margaret Thatcher, the principal author of the party's subsequent retreat from Europe, dropped first the commitment to devolution. Labour, meanwhile, has turned full circle in the opposite direction, espousing greater self-rule in Scotland and Wales before coming to terms with Europe.

I still doubt Mr Major's message will have much resonance in the country. In the present mood of sullen nationalism, bashing Brussels is worth a few votes. A Scottish parliament may also prove a useful metaphor in the wider strategy of playing on the voters' fear of change. But this is small beer against taxes, education and the rest.

Yet in raising the profile of the issue before the election, the prime minister has signposted the way the debate will change if Mr Blair wins. Herein lies the real danger for Labour. The English have so far seemed apathetic about devolution. They may feel differently if prospect turns to reality.

Hitherto, a Scottish parliament has seemed a distant prospect (a Welsh assembly even more so). As such, it has been treated by Labour and the Liberal Democrats as an issue to be left entirely to the Scots.

The powers and procedures of the new parliament have been decided by the Scottish branches of those two parties. Mr Blair's only intervention has been to insist on a two-part referendum, on the principle of the parliament and on whether it could vary taxes.

The reality of devolution, though, would bring a much wider engagement of the English political classes. Opponents would dust off the arguments of the 1970s when they defeated Labour's last attempt. In the terms of the so-called West Lothian question, a new parliament would be said to confer an unfair advantage on Scotland. Why should Scottish MPs have the right to vote on England's affairs while English MPs were denied the same right in Scotland?

Part of the answer to that perennial question lies in the anomalies mentioned above. The constitution has always been rooted in contemporary realities rather than in diagrams drawn by tidy minds. Thus, for 50 years after partition, Northern Ireland's affairs were run by its own parliament.

That said, and though he does not care to admit it, Mr Blair would have to concede that Scottish devolution required a new political bargain. It would probably mean an end to Scotland's over-representation in the House of Commons. Some would query the financial settlement it now receives from the Treasury.

It is absurd, though, to suggest that Scotland must choose between the status quo and independence. The real answer to the West Lothian question is found in the answer to a second question: do the English value the Union?

If the reply is yes, the two nations will reach an amicable accommodation. Within a generation, this deal will be seen as a pivotal joint in the constitution – as sacrosanct as the Act of Union itself. If the answer is no, the separatists will be proved right, and Scotland will seek its independence. I wonder which response those who oppose devolution would prefer the English to give?

**The British Constitution Now, Ferdinand Mount, published by Mandarin.*

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

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Political objectives in Germany at odds with employment needs

From Dr Jörg Schimmelpfennig.

Sir, One should refrain from offering easy-looking solutions for Germany's record unemployment or, worse still, using it as a "proof" for the success – or failure – of any macro-economic school of thought ("Germany's jobless crisis deepens", and "Savage German shake-out as industrial jobs go abroad", February 7). In the present case, however, two distinctive features of the political-economic system which must not remain unmentioned should have us thinking about the interests of today's political players.

First, the cosy relationship between trade unions and employers – which has undoubtedly been instrumental for Germany's past economic success – stops being advantageous to all sides once economic growth slows down. Due to their monopolistic structure, German unions have since turned into a cartel promoting only the interests of the insiders (i.e. those with a job), at the expense of the outsiders (the jobless), very much in contrast to their lip service. Like every other club, they maximise their members' per-capita utility. It should not be mistaken for overall economic benefit.

Second, there are similarities between the 1930s and today's economic situation other than the mere unemployment numbers. Factories are lying idle again, just as they were at the time of John Maynard Keynes' writings.

While there is an old dictum saying that no two historical situations can ever be exactly the same, it does not say that the same policy – increasing public expenditure – should not work twice.

Of course, this would not come for free. There should be safeguards against misuse. It should only be allowed in exceptional circumstances. The budget should be required to be balanced over longer periods of time.

Anyway, all this does not matter. Unfortunately, such a policy would run foul of Germany's unqualified commitment to European monetary union and the Maastricht criteria and, thus, is ruled out by definition.

While trade unions can hardly be expected to change their behaviour – we know it is wrong but there is very little we can do about it – it is the second aspect that should give rise to a more serious concern.

By deliberately depriving themselves of a potentially rewarding policy instrument, politicians implicitly allow us to gain an insight into their prime objectives. Employment does not seem to rank among them.

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Point trying to convey was missed

From Mr Ramon Illarramendi.

Sir, I am surprised a quality paper such as the Financial Times would choose to take completely out of context and contort off the cuff comments at a Canning House conference on UK-Latin American relations.

Unless there were a hidden agenda, I can only assume the person writing this unsigned piece (Observer: "Donkey work", February 14) never listened to the speech in which I expressed the high regard and admiration I have for the President of Venezuela, and this over several decades. I tried to convey to the audience two relevant aspects of the president's personality; his sterling honesty (which stands in marked contrast with the atmosphere pervading public life in many countries and mine in the recent past) and his vast and almost unsurpassed experience.

It is this latter aspect, his vast experience and statesmanship, which renders the task of an adviser, never an easy one,almost superfluous. My speech was therefore in appreciation of the president and in no way could it be interpreted as suggesting any unwillingness on his part to weigh advice received.

In January, President Clinton called President Caldera in a birthday congratulatory message "the most experienced democratic leader of the world". Would it not be presumptuous for me to put myself forward as an indispensable adviser to such a man? That was my point.

Ramon Illarramendi,
presidential external affairs adviser.
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Caracas,
Venezuela

Alitalia not seeking state aid sanction

From Mr Domenico Cempella.

Sir, I was surprised to read the articles "Alitalia loss likely to be $800m" (February 13) and "Alitalia losses put $1.8bn rescue plan in jeopardy" (February 14).

The information you refer to in the article has been public knowledge for a long time. In particular, the Official Gazette of the European Community of November 16 1996, which was widely reported at the time, gives full details of our restructuring plan, including the L1,300bn of losses for 1996. Therefore, the amount of the 1996 losses is not something new.

Second, we are not, and have never been, seeking the approval of state aid. Rather, we are seeking endorsement from the European Commission that the investment by the state-owned holding company does indeed constitute a market transaction, which will also allow Alitalia's privatisation in due course.

You may have read the recent declaration by the Italian minister of transport that the bill for the privatisation of Alitalia will be submitted to parliament by June 1997.

Third, it is true that the Commission has raised a number of queries regarding our plan, as has been widely reported in the press. We are in the process of discussing these points with the officials of the Commission to try to find the appropriate solutions to reach a rapid conclusion.

Fourth, the agreement with the unions was the first of its kind in Italy – the employees will be taking 20 per cent of the ordinary shares. This has allowed us to reorganise the airline. Other companies in Italy and airlines in Europe are now following this example. Since the appointment of the new management team in March 1996, not a single flight has been cancelled due to strikes in Alitalia.

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Market forces could harm E. Europe's energy sources

From Dr D. Vorsatz and Dr B.R. Orton.

Sir, During the space of a week you reported the contrasting fate of two groups of nuclear power plants in Sweden ("All change in Swedish power sector", February 6, "Why has Sweden suddenly decided to shut down its nuclear power plants?", February 10) and Ukraine ("Chernobyl closure plan hits snag", February 8, "West's policies on eastern nuclear plants 'misguided' ", February 10).

In Sweden there has been careful preparation, with provision made not only for replacement but also for introduction of energy saving measures. No energy savings measures have been reported in the case of Ukraine, only the application of the market. It is only a matter of time before the final reactor of the Chernobyl power plant has an irreversible fault. This will open it up to modern power plants being induced with western capital. Under these circumstances, there will be a very sharp rise in electricity price.

This prediction follows from the experience of Hungary where most of the power production is now in western hands with guaranteed return of 8 per cent and an increase of 24.5 per cent in electricity prices this January. It will probably rise further to 40 per cent, to provide the right return. We advocate great care should be taken by the west in promoting change in east Europe's primary energy sources by market forces alone, since this will result in damage to the politico-environmental entity of us all, now and in the future.

Both Ukraine and Sweden will increase their share of the world output of greenhouse gases and other air and waste pollutants as a result of the proposed changes. Only energy saving measures will mitigate these effects, helped and financed by G7 and the European Bank for Reconstruction and Development.

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Personal View · Victor Ciorbea

Back in from the cold

Romania's new government is committed to economic reform and privatisation

It is less than three months since the general election in Romania brought to power the government I lead. Those elections showed the Romanian people had decisively rejected the past and chosen a democratic and market-oriented future for their country.

There had been a long period of poor leadership. Romania's reputation has been tarnished around the world by the failure of previous attempts to carry out much-needed reforms and the suppression of basic rights and freedoms. The result has been economic stagnation, inflation and continued isolation.

It it now my government's responsibility to live up to its mandate. Immediately after the election, we took steps to resolve ethnic and confessional problems and create a climate of social cohesion. Now we have prepared a comprehensive programme of economic reforms, with the goal of stabilising the economy and launching the structural reforms necessary for growth. Many of these measures require difficult and determined decisions.

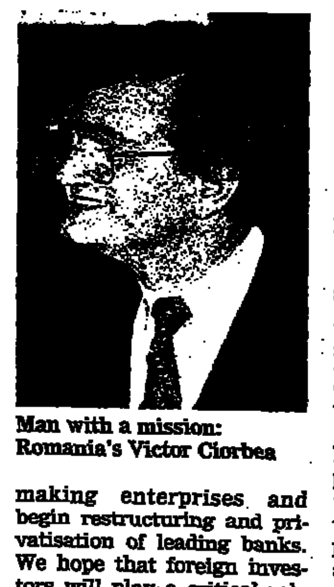
We inherited a budget deficit – including implicit subsidies – of 13 per cent of gross domestic product from the previous government. Our programme for 1997 will be to eliminate hidden subsidies and cut the total deficit to roughly one-third last year's level, to 4.5 per cent of GDP.

To achieve this we will cut agricultural subsidies, end most price controls, eliminate tax breaks and substantially reduce the public sector. Our budget reforms will ensure that Romania has a small government, but at the same time we will put in place programmes of social support to see people through these difficult times.

During the next few days and weeks we will take many important measures aimed at structural change. To promote trade and integration with Europe, we have ended controls on foreign exchange needed for trade purposes, and we have allowed the lei to float freely in the exchange markets. We will also end the cumbersome system of export licensing and import quotas, and we will sharply reduce tariffs and other forms of protection.

Romania is still burdened with a large state sector which controls three-fifths of the economy and remains inefficient and unreformed. We intend to privatise rapidly as much of this sector as possible, by auctioning enterprises for cash and vouchers.

During 1997 we will auction about 50 enterprises a week, liquidate chronic loss-making enterprises and begin restructuring and privatisation of leading banks. We hope that foreign investors will play a critical role in providing investment and assistance in this process.



Man with a mission: Romania's Victor Ciorbea

There is no doubt that these steps are difficult and will create both benefits and hardships. Some sceptics have already questioned whether rapid reform can be sustained, but these reforms are not being introduced without consultation. We have already received support from trade unions, coal miners and businessmen.

In the past, it was narrow vested interests that prevented reform, not not broad public opinion. It was often for the sake of a small minority that costly controls were maintained, inflation was let loose and reforms were reversed – all of which caused great harm to our nation.

Our programme has also received widespread support from the international community. We have successfully completed negotiations with the International Monetary Fund for a one-year standby arrangement, and we have reached agreement with the World Bank over a programme of structural reform in the financial, enterprise and agricultural sectors. The steps in these programmes reflect our promises to the people of Romania and we are fully committed to implementing them.

For many years, Romania has consumed more than it produced, and lived in isolation from its neighbours and the world. Those days are past. The chance to take advantage of our proximity to the European Union, our good education and our will to succeed has finally come.

There is no doubt we are a long way from our goal of sustained growth and integration. But with the reforms we have now started, with the growing confidence of the business community and with the goodwill of our European neighbours as well as our friends throughout the world, I am confident we will succeed.

My hope is that in the coming month and years we can all look back to this period as a decisive step in Romania's history, confident that we will have done our duty to the country and contributed to the stability of the region.

The author is Romania's prime minister.

COMMENT & ANALYSIS

FINANCIAL TIMES
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A newcomer's neat work

Mrs Madeleine Albright, the new US secretary of state, has already shown a certain dexterity in handling her European allies. By choosing Rome as the first stop on her maiden trip to the old world, she made a quiet show of solidarity with all those Nato countries which suspect France of bidding to put European security in the hands of a directorate consisting of London, Paris, Bonn and Moscow.

French officials would argue that their recent proposal for a five-nation summit grouping the US and four leading European powers is designed to pre-empt cronyism of another sort: bilateral US-Russian deals over the future of Nato from which western Europe is excluded. But smaller Nato members seem at least as nervous of French intentions as they are of the US, and this has not gone unnoticed in the State Department.

Today's meeting of Nato foreign ministers will no doubt hear fresh cries of alarm from countries like Norway, Belgium and Portugal about the prospect of deals being done behind their backs. As the representative of the only country which can go through all the motions of consulting partners without risk to its own, overwhelming power, the new secretary of state will hear out these complaints with understanding and sympathy.

Not that US foreign policy, under Mrs Albright or any other secretary of state, is entirely averse to deal-making in twos or threes. She and her German counterpart Mr Klaus Kinkel yesterday buried a bizarre US-German row over the status of scientology with a haste that underlined the vital importance of their relationship.

In private at least, US and German officials will acknowledge that Nato's enlargement has been driven forward by a discreet but rock-solid partnership between the military and political establishments of Washington and Bonn. It is based on a common understanding of the need to co-manage the economic and political development of central and eastern Europe, with Washington as ultimate guarantor of the region's security and Bonn as main provider of financial aid.

Last December, when US-French relations were at their nadir, US officials drew a pointed contrast between this sorry state of affairs and their exemplary ties with Germany. As Mrs Albright understands, this Washington-Bonn axis needs to remain in prime condition if she is to realise her dream of a "smooth passage" to the Madrid summit on European security in July.

So far at least, the US and Germany have managed to do business together without incurring the resentment or jealousy of smaller nations. Whatever bilateral understandings they reach, Washington and Bonn rarely forget to observe diplomatic niceties and work through the proper institutional channels, from Nato to the Organisation for Security and Co-operation in Europe.

With no recourse to the confrontational tactics which she sometimes used as ambassador to the UN, Mrs Albright has managed to cast the French summit proposal as a somewhat heavy-handed attempt to bypass the institutions and cut smaller countries out of the picture. That is neat work for a secretary of state in her first few weeks of office.

Sharif's new leaf

Mr Nawaz Sharif, who was sworn in yesterday as Pakistan's new prime minister, claims to have turned over a new leaf since his removal from office in 1993 on charges of corruption. And to judge by his maiden speech to parliament, he would like India to do the same.

He knows that he will not get far in his efforts to transform Pakistan's prospects without an easing of tensions with India. The two neighbours will scarcely resolve their differences overnight, if ever. But that he and the Indian prime minister should be talking about talking to each other is a signal improvement on three years' angry stalemate.

The new premier made equally encouraging noises about the his main domestic challenge: averting economic crisis. With a current account deficit of more than 6 per cent of GDP and heavy burden of foreign debt the economy has spent the past year lurching from one near-balance of payments crisis to another. Foreign reserves have now fallen to around $600m, less than 3 weeks of imports.

Without extra help from the International Monetary Fund to bridge the hole in the external accounts a genuine crisis seems all but inevitable. The outgoing caretaker government made a start on economic reforms to prepare the way for agreeing a new medium-term loan programme next month. But the IMF will not risk another failure without clear evidence that the new government will continue – and strengthen – those reform efforts.

Is Mr Sharif the man to do this? His past record is hardly encouraging. When he was last in office he was firmly in the "spend now, pay later" school of economic policy-making. Any reversion to his old habits now would spell disaster. But Sartaj Aziz, the incoming finance minister, and Mohammed Yaqub, the newly re-appointed central bank chief, are more credible proponents of reform.

Between them the two men have at least an outside chance of imposing the necessary shift in the country's political and economic culture. But to do this they will need to make enemies: cracking down on corruption and patronage in the debt-ridden banking sector, for example, and on the tax avoidance which robs the government of a large chunk of its revenues. And they can only do that if Mr Sharif has the courage to support them.

Consumer woes

Why is it that customer disaffection continues to grow even in UK privatised industries such as gas, which were floated more than a decade ago? Clearly teething troubles are inevitable when far-reaching structural change is imposed on giant utilities. With gas, the big change – the demerger of the supply business, Centrica, whose shares began formal trading yesterday – simply came late. In rail, criticism of this week's service cancellations by South West Trains, owned by Stagecoach, have come sooner, but look similar.

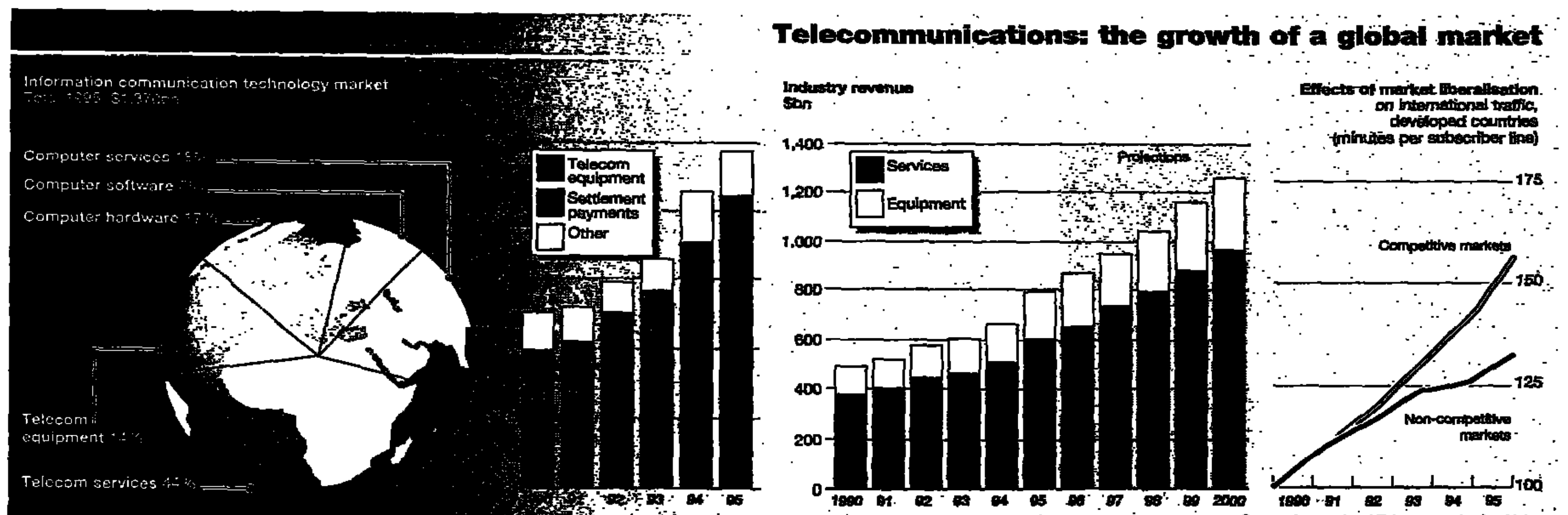
Yet there is a wider unhappiness which is not just transitional. Poll evidence suggests that consumers believe prices have risen in industries where they have fallen significantly. And while a recent report by National Economic Research Associates (Nera) identified a sustained improvement in levels of service in the utilities including water, the notion that the bosses of the water industry are performing well would prompt ribaldry across the land.

Clearly a poor job has been done in publicising the benefits that privatisation and increased competition have brought to the consumer. There is, too, a wider problem of expectations, which arises from the general assumption that access to services from monopolistic utilities is a basic social right of citizens. Where prices have risen, as in water, the problem becomes acute.

In gas, however, prices have fallen. Nera professes itself baffled that the volume of customer complaints has continued to increase. Yet gas, like water, has been attacked over boardroom pay. Note, too, that the performance criteria attached to so many of the share incentive schemes that have enraged the public relate to maximising shareholder returns rather than customer satisfaction.

While there is a burgeoning literature on the need for more regulatory accountability, there is much less on corporate accountability. And this is where the real difficulty lies. Privatisation has entrenched the conflict of interest in the utilities between consumers and shareholders. The result is that the legitimacy of these businesses is suspect.

The Conservatives' answer is simply to offer more privatisation. Labour's chief response is an indiscriminate windfall tax that fails to address the real problem. Until the debate addresses the issue of legitimacy more directly, consumers will continue to complain.



A ringing endorsement

Big carriers with an international presence will be the first beneficiaries of telecoms liberalisation, says Alan Cane

The euphoria at the weekend among trade representatives and their delegations to the World Trade Organisation talks on telecommunications services in Geneva was understandable. After three years of often gruelling negotiations, they had finally reached agreement on ushering in an era of free competition, low prices and cross-border investment.

But there was a strong element of chauvinism mixed in with the jubilation – perhaps surprising for talks designed to benefit all the participants rather than playing to the strengths of any one country or trading bloc.

For Ms Charlene Barshefsky, the US Trade Representative designate, the agreement was a triumph for the American way. "US companies are the most competitive telecommunications providers in the world; they are in the best position to compete and win under this agreement," she said.

Even Mr Ian Taylor, the UK science and technology minister, felt impelled to make the case for British contenders. "This is great news for worldwide telecoms users and manufacturers and particularly for the UK's industry and consumers," he said.

Such rhetoric reflected the politician's need to play to the gallery back home. But it is also based in fact: Ms Barshefsky and Mr Taylor know their countries have the advantage of the experience of more than a decade of competition – and are best placed to benefit from liberalisation.

"The developed countries will get the lion's share of this market," says Mr Neil McMillan, the British civil servant who chaired the negotiations.

It is an enormous market. Figures from the International Telecommunication Union suggest trade in telecommunications was worth $788bn in 1995, of which three-quarters came from the sale of telecoms-related services.

Sales of services are growing at 7 per cent a year and show no signs of slowing down. By next year, telecoms trade will be a thousand billion dollar business.

The talks, which had been in progress intermittently since 1994, failed last April because the US did not believe enough satisfactory offers had been put forward. Of 48 offers at that time, it judged only about a dozen as acceptable. This time, some 69 countries made acceptable offers – many improving their offering significantly.

Japan, for example, has agreed to remove limits on the stake a foreign company can hold in a Japanese carrier, with the exception of NTT, the national operator, and KDD where 20 per cent remains the limit. It has also agreed to eliminate restrictions on resale of spare capacity on international lines, a rapid and effect method for new competitors to enter its market.

The agreement is also significant in providing – for the first time in world trade negotiations – the basis for a regulatory structure to manage competition in an open way. This will include rules to ensure fair trading that will apply globally and should reassure telecoms companies and private investors planning cross-border investments.

In the short term, the principal beneficiaries of the Geneva agreement will be the big carriers with a well-developed international presence. Operators from already liberalised environments – AT&T, MCI and Sprint in the US, British Telecommunications and Cable and Wireless in the UK – will have an advantage because of their experience of competition.

Many of these have formed global alliances to attack new markets – these include AT&T's WorldPartners, BT and MCI's Concert and Global One which brings together Deutsche Telekom, France Télécom and Sprint.

National operators facing competition for the first time from the alliances will be forced to go it alone or attempt to dominate a national niche. NTT of Japan, the world's largest telecoms operator, has already said it will form partnerships abroad to distribute its services.

But if the countries with the most competitive operators expect to be winners, must there not also be losers? Not so, says Mr McMillan of the UK. "I cannot see that anybody can lose from this deal – apart from those countries which believe they can continue to make superprofits from telecoms behind trade barriers."

His conclusion is given weight by the fact that almost 70 countries representing about 90 per cent of the world's telecoms revenues felt encouraged to sign the deal. The chief non-signatories are China and Russia, both of which have yet to become members of the WTO.

Improvements in offers apart, there are three principal reasons why a deal proved possible last weekend. First, the participants realised that failure would mean fresh negotiations could not be concluded much before 2006 – a disastrous delay given the speed of change in the telecoms industry. With a new round of negotiations under the General Agreement on Tariffs and Trade due to open in 2000, there was little chance of earlier agreement.

Second, the developing countries increasingly realised they had more to lose than gain by keeping their markets closed.

Traditionally, these countries have been concerned about the threat to their national operators from the large international carriers. They have worried that declining international call rates meant a loss of income – damaging their trade balances.

They are aware, however, that they need $60bn a year simply to maintain their existing telecom services – and much more if they are to catch up with the more advanced countries. Foreign investment is the only way they can hope to find the capital, and investors would be more willing to put money into a third world operator if they felt their investment was protected from government interference by WTO-approved regulations.

"You cannot dig up your infrastructure and take it away if the government decides to nationalise it," one official noted.

Third, there was a growing understanding among operators that trade liberalisation was important for them and could provide them with benefits such as investment and access to foreign markets. Trade negotiators and telecoms operators come from different backgrounds with different ways of working. Collaborating on the talks has been a learning experience.

Telecoms markets will continue to open up, national operators will be privatised and call prices will continue to fall with or without the Geneva agreement. But the importance of the deal as catalyst cannot be overemphasised. The US may have been right to hold out for better offers, but it took quite a risk.

Template for trade talks

As well as delivering a big boost to the telecoms industry and its customers, the WTO agreement has re-written the rules of global trade negotiations. Its achievement has raised hopes that the pioneering approach taken can now speed up the liberalisation of other industries, such as financial services.

This is the first multilateral accord to be clinched by focusing on trade in a single sector. Until now, progress has depended on constructing elaborate package deals, covering many types of trade, in marathon negotiating rounds which take years.

The success of the new approach promises to quicken the tempo of trade liberalisation. "It appears we can now negotiate agreements more or less continuously, as long as countries are prepared to make the necessary commitments," Mr Jeffrey Lang, chief US WTO negotiator, said yesterday.

His optimism reflects a decisive change in mood. Until the weekend, the telecoms talks were widely viewed as the last chance for the single-sector approach, after their near-collapse last April and severe setbacks in separate WTO efforts to liberalise financial services and shipping.

Critics said the approach was faulty because it allowed no trade-offs between divergent interests. Giving concessions in one sector in return for gains in another has long been vital to negotiating rounds. "I now think single-sector talks may have been the only way to get a telecoms agreement," says a previously sceptical diplomat.

One reason is that negotiators could focus their attention on one set of talks. That allowed them to study the issues in depth and consult widely with each other and with business and political interests at home. The WTO secretariat also drafted offers for many developing countries to put to the negotiations – it would have lacked the resources to do this in a round covering several sectors.

Admittedly, the approach also gave a big say to recalcitrant industry lobbies. Last-minute objections by US satellite companies caused Washington to balk at a deal in April. However, that upset spurred the US negotiators to work harder to build a united industry front in favour of liberalisation. As a result, no previous trade agreement is likely to have commanded such wide support in one sector.

Indeed, the biggest lesson of the telecoms deal may be the importance of involving business more directly in trade policymaking. Though US negotiators are required to consult domestic industries, the WTO has preferred to keep producers at arms' length, fearing they would oppose liberalisation.

Yet in some industries, at least, free trade enthusiasts are starting to dictate the agenda. For example, electronics companies on both sides of the Atlantic have led the way in pushing for an agreement to abolish tariffs on information technology products, which the WTO aims to conclude shortly.

The role of business will be crucial when the WTO relaunches negotiations to liberalise financial services in April. The talks broke off in 1995 when Washington refused to participate in a deal, under pressure from a number of US banks and insurance companies.

Fear of another failure has spurred high-level industry efforts to get a deal. They are being promoted in Europe by a committee headed by Mr Andrew Buxton, chairman of Barclays, the UK bank, in close liaison with a US industry group led by Mr Kenneth Whipple, president of Ford Financial Services.

The aim is to achieve a transatlantic consensus in favour of liberalisation. That would not only make a deal more likely, but could pave the way for a different style of trade negotiations in the future.

Guy de Jonquières

· OBSERVER ·

Degrees of uncertainty

■ Once upon a time university degrees were awarded only for fusty subjects such as classics and maths, but these days you can get letters after your name in almost anything. We cite as evidence the latest bachelor of science degree – and perhaps even a masters – about to be launched by Ford.

The car giant is coy about giving away details of the degree – aimed at its UK car dealers – ahead of a fanfare launch planned for early April, but Observer can reveal that the project has been cooked up with the help of Loughborough University, a seat of learning which already runs a Ford-sponsored degree in automotive engineering.

The new course, it seems, will be a mix of on-campus and distance learning; the idea is that eager dealers will be able to pick up an honours degree without interrupting the serious business of flogging motors. In the long run Ford hopes to put pep into its flagging UK sales by creating an elite of sharp-suited salesmen.

The course content is also under wraps: but a number of modules spring immediately to mind. Lectures such as Basic and Advanced Haggling are bound to be popular, while an advanced seminar on Trade-ins: their scope and application should pay dividends on the forecourt.

And in a business where presentation is everything, a foundation course in Polishing – the primacy of elbow grease sounds like a must.

Gremlinology

■ Bill Gates may be the world's richest man but even a huge personal fortune does not buy immunity from gremlins. The Microsoft chairman yesterday suffered two attacks in front of an American Association for the Advancement of Science meeting in his home city of Seattle.

First, Gates tried to demonstrate the Internet by getting into his personal electronic mailbox; the modem connection failed after a minute.

He then asked Microsoft researcher Matt Turk to demonstrate a new "seeing computer", which was supposed to tell which part of its screen Turk was looking at by watching him through a mini-camera. The infernal machine resolutely refused to believe that Turk was looking anywhere beyond the top of the screen.

Fortunately Turk had given himself a let-out before he began by quoting one of his boss's favourite lines: "It's not research unless there's a 90 per cent chance of it not panning out."

Bought to book

■ Kim Hyun-chul, son of the South Korean president, is planning to sue the opposition for claiming he had ties with Hanbo steel, the company at the centre of a bribes-for-loans scandal. While denying the opposition charges, Kim still has to explain why 10,000 copies of his book of political essays turned up in a Hanbo warehouse.

Opposition MPs claim the books are proof that Hanbo was financially supporting Kim, known locally as "the crown prince" because of his influence in the Blue House, the presidential mansion. Hanbo says it bought the books as a part of a policy to encourage "good" reading among its workforce; strange, then, that the books were stacked in unopened boxes covered with dust.

Save it

■ Old habits die hard, and Vietnamese citizens are proving reluctant to move their savings from under their mattresses and into the safe-keeping of banks. The country's central bank is more than a little frustrated at this apparently lukewarm support for the fledgling banking system. And how better to encourage tidy financial habits than by holding an essay-writing competition?

The competition, sponsored by The Commercial Bank of Korea and advertised in the local press, asks contestants to write on one of two catchy subjects: "How to encourage people to deposit money with the bank", or "What is the best way to mobilise money, especially for medium and long-term deposit?" Let's hope the $90 first prize ends up locked away somewhere safe.

Let's get lost

■ The St Patrick's Day parade in Castlebar, the west of Ireland home town of European commissioner Padraig Flynn, should be interesting this year. Parade organisers plan to stage a look-alike contest featuring Princess Diana and Lord Lucan, who disappeared back in 1974.

The Connaught Telegraph reports that both the princess and lord have family connections with the town dating back to the early 1700s. A street and park there are named after Diana's family, the Spencers; and hundreds of Castlebar householders are still paying ground rent to the Lucan estate. Sounds like a real absentee landlord.

The Financial Times

100 years ago

The Cretan Crisis
According to all appearances, the Cretan crisis will turn out to be a storm in a teacup, and the markets will soon look very foolish over the recent scare. The position is very briefly this. The Moslems have continued for many months to massacre Christian Armenians in Anatolia, Constantinople and elsewhere throughout the Ottoman Empire, and the great Powers have been unable to put a stop to the horrors. In Crete, the Christians have been massacring the Moslems, and on this matter there has been no dissension among the Powers. They are taking unanimous action to prevent the Turks from throwing reinforcements into the island, but, on the other hand, they will not allow the Christian side to be reinforced by a rush of headstrong Greeks.

50 years ago

U.S. Surplus Stocks
Advertisement: "United States Government Surplus Stocks Located in Germany Now Offered For Sale. Property will be sold at depots on a 'first come, first served' basis. Contact Office of the United States Foreign Liquidation Commissioner, 9 Rue de Presbourg, Paris."

FINANCIAL TIMES

Tuesday February 18 1997

Rumours sweep Beijing over Deng's health

Leading officials break off provincial tours

By Tony Walker in Beijing

China's top officials have cut short provincial tours to return to Beijing, amid indications that the health of Mr Deng Xiaoping, the paramount leader, has deteriorated sharply.

China's state media gave no sign last night that Mr Deng, 92, may be close to death, but the capital was awash with rumours.

Reuter reported yesterday that President Jiang Zemin had cut short a trip to southern Jiangxi province to hasten back to Beijing. Premier Li Peng had returned from Guangdong, the province adjacent to Hong Kong.

Beijing insists Mr Deng's health is "all right" for a man of his age, but Chinese officials say privately his condition has worsened in the past weeks. "There are doubts whether he will live beyond the end of February," said one.

But Western diplomats point out that Mr Deng, who was last seen in public in early 1994, has defied persistent reports of his imminent demise. "He dies about four times a year according to the Hong Kong press," said one.

An alternative explanation for the leadership's movements is the crisis over the defection of a senior North Korean official who has taken refuge in South Korea's mission in Beijing.

China fears a further destabilisation on the Korean peninsula when North Korea is facing famine, and doubts persist over its leadership since the death of Kim Il Sung in 1994.

Among the senior leaders back in the capital are Mr Qiao Shi, who ranks third in the hierarchy, and Mr Zhu Rongji, the vice-premier in charge of the economy. Both were in southern China.

President Jiang and Premier Li are said to have visited Mr Deng at the weekend. The Hong Kong press prompted a slump in the stock market last week when it reported that the architect of China's economic reforms had suffered a stroke.

Mr Deng withdrew from public life in 1990, but continued to wield influence. Since 1994, however, he has not played a significant role.

Chinese propagandists have been preparing the public for his demise with tributes, including a television series shown early this year. Mr Deng is suffering from Parkinson's disease and other degenerative ailments. He lives in a compound behind the Forbidden City in Beijing.

Stand-off in Beijing, Page 8
S Korean economy, Page 8

Hamanaka pleads guilty to fraud and forgery

By William Dawkins in Tokyo

Mr Yasuo Hamanaka, Sumitomo's disgraced former star copper trader, yesterday pleaded guilty to fraud and forgery involving $2.6bn.

The charges stem from an illicit metal dealing loss which became Japan's biggest corporate scandal.

Mr Hamanaka's admission came at the start of his trial at Tokyo District Court. The case is likely to raise fresh questions about the efficacy of risk management at Japan's multinational companies.

Dubbed "Mr Five Per Cent" for the share of the world copper market he was believed to have controlled, it is thought he covertly tried to drive up prices in an ultimately futile battle against US hedge funds.

However, the Japanese trial does not cover the wider issue of why he tried to corner the market and for whose benefit. These questions are being investigated by regulators in the US and UK, where the deals took place.

Tokyo prosecutors also alleged yesterday that he had received Y15m ($120,000) of "gratitude payments" between autumn 1992 and spring 1993 from the Tokyo representative of the UK commodities trading group Winchester Commodities, which had acted as a broker for Mr Hamanaka.

When Sumitomo sacked Mr Hamanaka last June, Winchester denied any responsibility for the losses, maintaining it only had a small involvement with the trading group.

Tieless, and wearing a blue suit with green plastic sandals, Mr Hamanaka, 49, simply said: "That is correct," when responding to the fraud and forgery charges. If found guilty, he faces a maximum 15-year prison sentence – five for forgery and 10 for fraud.

On the forgery charge, Mr Hamanaka admitted falsifying managers' signatures on four letters to open illicit trading accounts.

On fraud, he admitted making improper payments of $771m from Sumitomo's Hong Kong subsidiary to Morgan Guaranty of New York, to cover losses on a copper option account he held there. Morgan Guaranty is not accused of any misdemeanour.

Sumitomo has claimed all along that Mr Hamanaka alone was responsible for the loss and that senior managers knew nothing about it until he confessed after an internal audit last May.

The case could take up to three years under Japan's slow-moving judicial system.

But the outcome is in little doubt – more than 99 per cent of Japanese state prosecutions result in convictions.

Bonn facing fiscal curbs

Continued from Page 1

defended the "cautious" monetary policy adopted by central banks in the 1990s which had laid the basis for the decline in the cost of long-term borrowing for business. German long-term interest rates were lower than the US, he noted.

● Mr Romano Prodi, the Italian prime minister, last night reasserted Italy's determination to join the first round of European monetary union in 1999, Andrew Fisher in Frankfurt writes.

Speaking ahead of a dinner attended by German industrialists and bankers, he said the government was following consistent policies and financial markets recognised this. Italy was not "fudging" or "cheating", he added.

VW and GM

Continued from Page 1

company to do when faced with allegations that it has been victimised by the improper acts of others. As those acts are discovered, appropriate prosecuting authorities are informed and given our full cooperation in their investigations."

GM would not confirm or deny that an investigation by the US Justice Department was under way.

However, an official at a car industry supplier
said Zurich prosecutors had taken two people into temporary custody in connection with the alleged bribery ring. One, a headhunter based in Switzerland, was believed to be the mastermind.

Romanian PM unveils 'economic salvation' plan

By Chrystia Freeland in Bucharest

Mr Victor Ciorbea, the Romanian prime minister, yesterday announced an economic shock therapy plan to slash the budget deficit, rein in inflation, open up the foreign exchange markets and speed up privatisation.

In a speech broadcast live on television, Mr Ciorbea called the move a "programme of national economic salvation".

The package could be a breakthrough for Romania which, under the leadership of former communists, has lagged behind most of eastern Europe in the transition from central planning to a market economy.

Mr Ciorbea, who became prime minister after the election of a centre-right coalition last autumn, warned the long-suffering Romanian people that the programme would bring fresh pain, forcing the economy to contract by 2 per cent this year. But he promised it would lay the foundations for an economic rebound in 1998 and set Romania on a course of integration with the rest of Europe.

"We must pay a very high price. We are paying for the mistakes of the past but also to guarantee the future," Mr Ciorbea said. "We are paying with months of our lives, with our nerves, with energy and unfulfilled dreams. But we are paying because we are firmly convinced that this will be the last payment of this kind and in the knowledge that there is no other way."

The radical package follows the precipitous disintegration of the Romanian economy last year, which saw a sharp jump in inflation to nearly 60 per cent and a reintroduction of controls over the foreign exchange market, as the ruling leftist government sought to buy its way to re-election.

The new administration's plan, which the prime minister insisted had to be implemented in one fell swoop, calls for a cut in the budget deficit from last year's 5.7 per cent of GDP to 3.5 per cent this year.

Mr Ciorbea said the government would liberalise the foreign exchange regime from today, and both foreign and domestic banks would be allowed to operate on the market.

He said the government would aggressively push ahead with privatisation, selling off 2,750 enterprises by the end of May. The government aims to sell 69 per cent of Romania's enterprises by the end of the year.

The reform package also calls for the liberalisation of almost all state-controlled prices – which inspired long queues for petrol on the streets of Bucharest yesterday. Fuel prices are set to rise by 50 per cent and utilities, railway transport, urban transport and telephones are also in line for massive increases.

Back in from the cold, Page 18
See Lex

THE LEX COLUMN

A few dollars more

Is the strength of the dollar a good reason for buying continental European equities? Certainly, the weakness of the D-Mark and other currencies should boost exports, growth and corporate profitability. Understandably, continental stock markets have got off to a cracking start in 1997: Frankfurt is up 12 per cent, Paris 13 per cent and Milan 18 per cent. However, the gains from the swings have been more than lost on the roundabouts; in dollar terms, Frankfurt and Paris are up only 3 per cent, while Milan has risen 8 per cent. Shareholders would have done better to invest in the US, which is up 9 per cent.

Looking at currencies alone, this seems appropriate. True, exporters based on the Continent could see leaps in profitability that more than compensate for the decline in the currency. Hence, the outperformance of automotive, engineering and electronics stocks. But much of European industry – like the media and retailing sectors which have underperformed so far this year – is domestic and so will benefit little from dollar weakness. Meanwhile, European-based multinationals are likely to gain simply because profits made elsewhere will look higher once translated into cheaper domestic currencies.

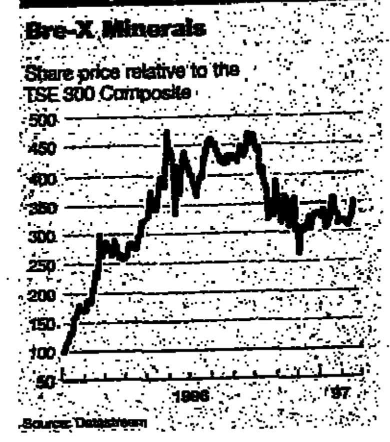
Moreover, dollar strength is not necessarily a buy signal even in those sectors where there is a clear impact on profitability. Unless the currency continues to appreciate, the impact will be one-off. Investors looking for ongoing improvements would do better to pick companies which are making determined efforts to restructure themselves.

Freeport/Bre-X

The Indonesian government's preference for doing its business beyond the gaze of public inquiry remains questionable. That said, privacy has not prevented a fierce struggle for the right to develop the Busang gold deposit. But whether shareholders of Bre-X Minerals, the company that discovered the deposit, have benefited from this process is moot. They can be pleased that they have been freed of an arranged marriage with Barrick Gold. But the emergence of Freeport McMoran Copper and Gold (FCX) as development partner is not obviously a blessing. The terms of the Barrick deal were never made clear, but shareholders are now faced with their share in the project falling to 45 per cent from 90

FTSE Eurotrack 200:
2196.9 (+10.9)

Bre-X Minerals



per cent, without any exchange of cash or shares.

Moreover, although estimated ore reserves at Busang have now jumped to 71m ounces, Bre-X's shares look fully priced. Including the $1.2bn debt which will be taken on to develop the mine, Busang is being valued at around $10bn, similar to Barrick Gold, which has about the same reserves. The difference, of course, is that Busang is still two to three years away from production.

The clear winner in all this is FCX. With Bre-X's 45 per cent stake in effect valued at around $3.9bn, FCX's 15 per cent stake is worth $1.3bn, or $4.66 a share, after subtracting the $400m it will contribute to construction costs. On this basis, FCX's shares, which jumped $2¼ on Friday when rumours of the deal emerged, may have further to go.

Romania

If Romania's promised reforms read like something out of an International Monetary Fund textbook, that is probably because they are precisely that. Exchange controls are to be lifted; tariffs and price controls will be cut; much further privatisation is planned; the budget deficit is to be chopped by two-thirds. But ambitious though these promises sound, there are reasons to give the new government the benefit of the doubt. It has already shown willingness to be brave – doubling fuel prices in the middle of winter and abandoning an absurdly inflated exchange rate. Moreover, it shows every sign of understanding the importance of foreign investment in sustaining recent years' impressive growth rates. Yesterday's conspicuously gloomy government growth forecast – a 2 per cent contraction this year – hardly suggests it is complacent about the urgency of the problem.

Of course, many Western investors will want more evidence before getting involved. Even after the recent vertiginous depreciation – likely to worsen inflation further – it is far from clear that the currency has yet stabilised. Equity investors face more mundane problems too: legal changes guaranteeing the exportability of profits are still awaited; valuations are hopelessly opaque; the markets are illiquid and boast few established blue chip stocks. All the same, booming markets elsewhere in eastern European are bound to send investors scurrying in search of new frontiers. Romania is one to watch.

Banks/supermarkets

The hoary issue of UK supermarkets muscling their way into retail banking has raised its head again. NatWest and Tesco have had a sudden divorce: Mr Peter Ellwood, chief executive at Lloyds TSB, confesses to being more frightened of competition from non-bank retailers than from his traditional rivals.

Certainly, it would be foolish to underestimate the competitive threat. Nor should it be exaggerated. After all, Marks and Spencer has been in the financial services business for 12 years, yet operating profits in the last financial year were only £61m. Lloyds TSB pre-tax profits were £2.5bn. And assuming a 19 per cent post-tax return on equity, the average for the big four banks, Tesco's £40m-£50m investment in its new deal with Royal Bank of Scotland would produce princely profits of £8m. On this evidence, any inroads retailers are likely to make will be slow. They will not be helped by customer inertia; there is ample evidence to suggest that customers do not regard interest rates as a price in the same way they do petrol.

But while new entrants may not be able to make much money themselves, they can still damage the market. The biggest risk to the banks is not that the supermarkets will steal their business but that they will make it less profitable by cherry-picking the more lucrative products and driving margins lower.

Additional Lex comment on UK casinos, Page 28

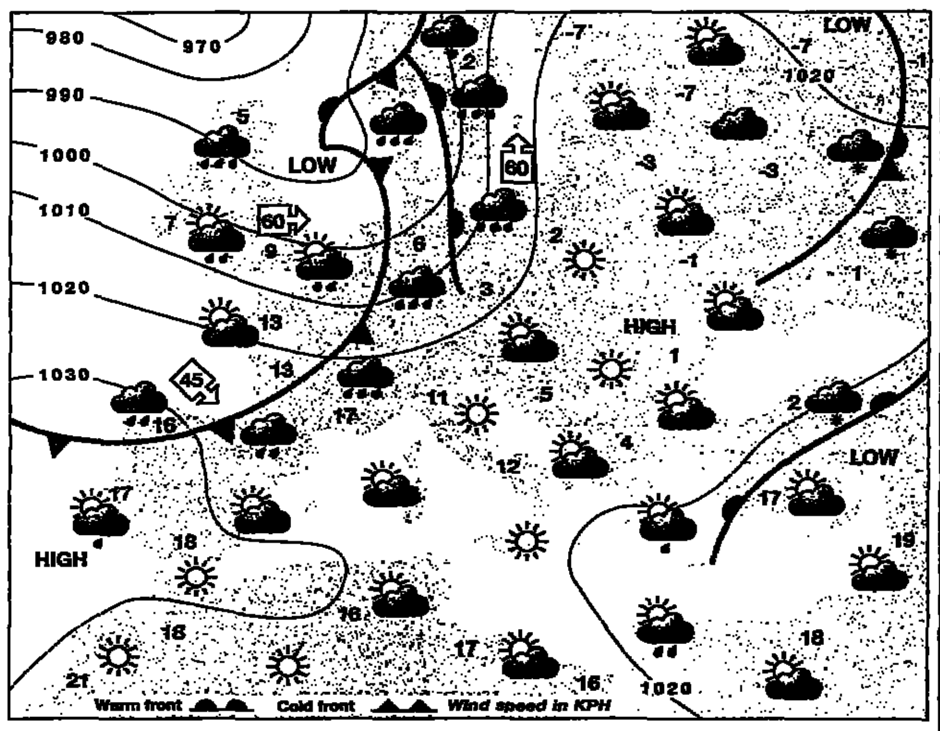
FT WEATHER GUIDE

Europe today

Low pressure over the North Sea will bring wind and heavy rain to western Europe.
Rain will fall in southern Scandinavia, Germany and eastern France.
Showers will develop west of this area, affecting the Benelux, the British Isles and northern France.
Southern France and most of the Iberian peninsula will have sunny conditions mixed with cloud. North-western Spain will have rain.
It will rain in Switzerland but Austria will be mainly dry.
Central Italy will be sunny.
The Balkans will have a mixture of sun and cloud.

Five-day forecast

High pressure over the western Mediterranean will improve conditions in this area.
Bad weather coming from the Atlantic will move towards *Scandinavia.*
Southern Europe will be mainly dry with plenty of sun.



TODAY'S TEMPERATURES

Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

	Maximum	Beijing	sun 4	Caracas	sun 27	Faro	sun 17	Madrid	fair 16	Rangoon	sun 34
	Celsius	Belfast	shower 5	Cardiff	shower 8	Frankfurt	rain 11	Majorca	fair 16	Reykjavik	rain 1
Abu Dhabi	sun 25	Belgrade	fair 5	Casablanca	sun 16	Geneva	rain 12	Malta	fair 13	Rio	shower 30
Accra	fair 32	Berlin	rain 7	Chicago	cloudy 12	Gibraltar	sun 17	Manchester	shower 8	Rome	sun 14
Algiers	fair 18	Bermuda	cloudy 21	Cologne	rain 12	Glasgow	rain 7	Manila	thund 32	S. Frsco	fair 16
Amsterdam	shower 10	Bogota	shower 19	Dakar	sun 27	Hamburg	rain 10	Melbourne	sun 37	Seoul	sun 1
Athens	shower 10	Bombay	sun 32	Dallas	cloudy 18	Helsinki	fair -5	Mexico City	fair 24	Singapore	thund 33
Atlanta	sun 18	Brussels	shower 12	Delhi	sun 23	Hong Kong	drzzl 15	Miami	shower 26	Stockholm	rain 2
B. Aires	thund 31	Budapest	fair 3	Dubai	sun 26	Honolulu	fair 27	Milan	fair 9	Strasbourg	rain 13
B.ham	shower 8	C.hagen	rain 3	Dublin	shower 6	Istanbul	rain 4	Montreal	cloudy 2	Sydney	fair 27
Bangkok	fair 36	Cairo	sun 18	Dubrovnik	sun 10	Jakarta	fair 30	Moscow	cloudy -9	Tangier	sun 17
Barcelona	fair 15	Cape Town	sun 23	Edinburgh	rain 7	Jersey	shower 8	Munich	rain 10	Tel Aviv	sun 19
						Karachi	sun 27	Nairobi	sun 29	Tokyo	cloudy 8
						Kuwait	sun 25	Naples	sun 11	Toronto	cloudy 9
						L. Angeles	sun 20	Nassau	thund 28	Vancouver	rain 9
						Las Palmas	fair 20	New York	fair 8	Venice	fair 9
						Lima	fair 27	Nice	fair 15	Vienna	fair 7
						Lisbon	fair 17	Nicosia	fair 20	Warsaw	sun 2
						London	shower 10	Oslo	rain 4	Washington	sun 12
						Lux.bourg	rain 9	Paris	rain 13	Wellington	fair 20
						Lyon	rain 15	Perth	sun 31	Winnipeg	snow -7
						Madeira	fair 17	Prague	rain 7	Zurich	rain 10

FINANCIAL TIMES
COMPANIES & MARKETS
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IN BRIEF

SAS profits hit by currency swings

A combination of higher costs, adverse currency movements and increasing competition caused a *31 per cent slide in* profits at Scandinavian Airlines System in 1996. A worse-than-forecast fall in pre-tax profits in the fourth quarter, *from* SKr487m ($66.17m) in the same period in 1995 to SKr365m - due mainly to currency effects - stalled hopes of a year-end pick-up and left full year pre-tax earnings down from SKr2.6bn to SKr1.8bn. Page 25

Centrica shares fall on London debut
The share price of Centrica, the former gas supply and trading arm of British Gas, slid sharply *in heavy trading* on its stock market debut, shedding 10¼ to 65¼p, the worst performer in the FTSE 100. Profit taking *after a week of* steady gains by Centrica in the "grey market" was one reason for the sell-off. Page 28

Half of Shandwick board to defect
Shandwick International, *one of the world's* largest public relations group, is expected to announce that half of the board at its London-based financial consultancy is defecting to set up a rival company. The executives quitting Shandwick Consultants are thought to include directors handling public relations for Halifax *building* society, venture capitalists 3i and British Gas. Page 28

Bangkok Land goes into red
Bangkok Land, one of Thailand's largest property and *condominium* developers, posted a deficit of Bt55.7m ($2.13m) in the third quarter of 1996, *after a profit of Bt129m in the same* period the year before. Analysts said the loss was unlikely to hinder the company's ability to meet interest payments on the company's SFr400m ($273m) convertible Eurobond. Page 27

Japan's 'convoy' system breaks down
The distinction between Japan's corporate winners and losers was blurred until recently by the "convoy" system, in which strong companies shepherded weak ones in the interests of collective strength. But the stock market's partial recovery since the turn of the year shows that the long-talked-of breakdown in the convoy system has happened. Page 26

Companies in this issue

Market Statistics http://www.FT.com

Chief price changes yesterday

FRANKFURT (DM)			
Rises			
Allianz	1425	+	35.0
Mannesmann	895	+	16.5
Falls			
Aachen Mch Rg	1200	–	25.0
GEA Prf	585	–	18.0
Volkswagen	806.25	–	10.25
Wella	857	–	16.5
LONDON (Pence)			
Rises			
Easynet	66½	+	9
Jeyes Group	122	+	16½
Low & Bonar	424½	+	26½
Phonelink	64	+	9
Falls			
Advanced Power	67½	–	12½
Westmt. Energy	77½	–	5
TORONTO (C$)			
Rises			
Ashanti Gld	14.50	+	1.25
Datamirror	9.80	+	0.70
ITC Hldgs.	4.00	+	1.00
Marleau	7.00	+	0.75
Falls			
Atlantis Comm	7.00	–	0.75
Epic Data Intl	3.10	–	0.40
PARIS (FFr)			
Rises			
Accor	780	+	30
Alcatel	601	+	14
Havas Advert	642	+	14
Falls			
Banc Comp	703	–	12
Fonc Lyon	715	–	23
Peugeot	572	–	12
TOKYO (Yen)			
Rises			
Asics Corp	257	+	30
Dai Tokyo F&M	550	+	39
Hattori Seiko	720	+	34
Nippon Soda	925	+	49
Yaohan Japan	412	+	42
Falls			
Pioneer	2100	–	110
HONG KONG (HK$)			
Rises			
Dah Sing Fncl	33.9	+	0.9
Falls			
Gt Eagle	30.5	–	0.9
Swire Pcfc	64.5	–	0.75
Sun Hung Kai	88.25	–	0.75
Tai Cheung	7.1	–	0.65
Tsim Sha Tsui	21.6	–	0.4
BANGKOK (Baht)			
Rises			
Hana Micro	150.0	+	11.0
Italian Thai	98.0	+	8.0
Thai Elec	30.75	+	2.75
Falls			
Saco Ore	45.25	–	4.75
Siam Food	84.0	–	9.0
Sino Thai Eng	38.5	–	4.0

New York closed. Toronto prices at 12.30pm.

Bre-X agrees $1.6bn mine deal

Exploration company raises estimate of Busang's gold reserves by 25%

By Bernard Simon in Toronto

Bre-X Minerals, the Calgary-based exploration *company, yesterday raised its* estimate of Indonesia's immense Busang gold deposit by another 25 per cent as it cemented a joint venture to build a US$1.6bn mine on the property.

Further clarification is expected today on the deal, which also includes Indonesian interests and New Orleans-based Freeport-McMoran Copper and Gold. Senior Indonesian officials are *expected to outline their views* this morning in Jakarta, while Mr David Walsh, Bre-X's chief executive, plans a conference call with analysts.

Bre-X, which discovered the deposit, has raised its estimate of Busang's reserves from 57m to 71m ounces, with an average grade of 2.48 grams per tonne. Busang is regarded as the biggest gold discovery since South Africa's Witwatersrand more than a century ago.

Some analysts have forecast that the Busang area, which has been only partially explored, may contain more than 100m ounces.

Under the joint venture *agreement, Bre-X will own* 45 per cent of Busang II and III, the richest zones of the deposit. Its Indonesian partners, Askatindo Karya and Amsya Lyna, will hold a 30 per cent stake, Freeport-McMoran 15 per cent and the Indonesian government 10 per cent.

Freeport has agreed *to provide* $400m towards the $1.6bn cost of mine construction. The remaining $1.2bn will be in the form of debt finance provided by *Chase Manhattan, the US* bank.

Bre-X was heavily traded in Toronto yesterday, , reflecting uncertainty about the joint venture. The shares were down 15 cents at C$23 in the *early afternoon, giving Bre-X a* market value of C$5.5bn ($4bn).

Ms Catherine Gignac, analyst at Deacon Capital, said Bre-X's announcement left "a lot of gaps". They include the Indonesian partners' contribution to the project and the status *of a C$2bn legal claim* against Bre-X by Mr Jusuf Merukh, an Indonesian businessman, who claims 30 per cent of Busang. Companies controlled by *Mr Merukh* have a minority stake in the small Busang I zone.

Freeport, 12 per cent owned by RTZ-CRA, the international mining group, is one of the biggest foreign investors in *Indonesia through its* 81 per cent stake in a large copper and gold mine in Irian Jaya.

Its involvement follows the collapse of talks between Bre-X and Barrick Gold, the Toronto-based producer invited by the Indonesians last November to spearhead the *development of Busang.*

Barrick said yesterday its proposal was "fair and equitable" to Bre-X and its Indonesian partners, but to have gone further "would not have been in the best interests of our shareholders". Barrick has extensive exploration interests of its own in Indonesia, which it said would be pursued.

Barrick shares lost C$1.95 to C$34 in early afternoon trade.

Lex, Page 20

Successful Telefónica equity sale realises $4.6bn

By Tom Burns in Madrid

The sale of the remaining 21 per cent of state-owned Telefónica equity, which was completed yesterday, raised about Pta650bn ($4.6bn), more than three times the amount ever realised in Spain through a disposal of a government-controlled company.

The telecoms operator *said* the privatisation had proved extraordinarily successful and had surpassed the most optimistic expectations.

Morgan Stanley of the US, and the domestic banks Bilbao Vizcaya, Argentaria and La Caixa, the global co-ordinators *of the sale,* fixed the price of the issue for the retail tranche, which was awarded 67 per cent of the total offer, at Pta3,339. This price represented a 4 per cent discount on Telefónica's average weighted trading price *of Pta3,374 yesterday on Madrid's* Bolsa.

The issue price for the institutional tranche was fixed at Pta3,360 which compared with a maximum price, fixed last week, of Pta3,385.

The lowering of the price for the institutions was intended to ensure the stability of the Telefónica's share value when trading starts today.

The timing of the privatisation has ensured a windfall for the government as the Bolsa index, driven by New York, set *a record high on Friday.* Telefónica shares, which began to strongly outperform the Madrid market midway through last year, were trading at Pta3,000 at the begining of January; the maximum price of the issue was fixed at Pta3,385 last week.

Demand for the telecom group's shares was particularly high among small Spanish investors, who bid about seven times the amount offered and will receive a 4 per cent discount on the issue *price, and on the domestic* institutional tranche which was 6.6 times subscribed.

The decision to award 67 per cent to small investors, up from an original 60 per cent, meant that the retail tranche had received the bulk of the greenshoe, or over-allotment, *tranche which represented* 12 per cent of the total offer.

International and domestic institutions will receive 33 per cent of the shares offered.

Pechiney warns of 4% drop in 1996 turnover

By Andrew Jack in Paris

Pechiney, the French alu*minium and packaging group* privatised in 1995, yesterday warned it would incur a loss for the second half of 1996 and said turnover for the year as a whole was 4 per cent down.

The group, headed by Mr Jean-Pierre Rodier, said its *fourth-quarter activities* had been affected by "the absence of a recovery in its principal markets" and a decline in the sales of drinks cans in the US and Europe

It said that, even if confirmed, the increase in the value of the dollar and the *"encouraging signs" reported* at the end of the year in demand for aluminium would only be reflected in its 1997 figures.

It added that there would also be exceptional provisions *for 1996* linked to its cost-cutting restructuring and to a legal action faced by *one of* its subsidiaries for allegedly infringing patents of a rival.

Pechiney's shares initially fell 3.9 per cent on the statement, before recovering to close at FF259.4, up 1.13 per cent. *It had already warned of* its financial difficulties when it published third-quarter 1996 sales figures in September last year.

Mr Rodier warned at the time that the group would return into the red for *1996* in the wake of a sweeping pro*gramme of cost cuts,* while stressing that his international competitors were likely to be in a similar financial situation.

Pechiney said in November that a fall in aluminium prices *and the problems with drinks* cans would cause a decline during the fourth quarter.

Pechiney head Jean-Pierre Rodier: decline in the sales of drinks *cans in the US and Europe* had hit the group's turnover

The figures released yesterday showed sales for the final three months of 1996 at FFr15.3bn ($2.68bn) compared with FFr16 on a like-for-like basis last time.

For the full year, sales were FFr64.4bn against FFr67.1bn in 1995. It said it would report a loss for the second half, compared with comparable profits of FFr100m in the same period in 1995.

Pechiney *stressed* yesterday *that a definitive judgment* had not yet been reached in the US legal battle being fought by American National Can, its US subsidiary. A US court in November ordered the company to pay $102m to Viskase Corporation, which claimed *ANC had infringed a* number of its patents for plastic films used for fresh red meat, processed meat and poultry product applications.

ANC is attempting to have the award reduced or struck out, but *potentially* the final charge to be borne in the 1996 *accounts could* be three times the size of the award made by the US district court.

Posco's $821m deal in S Korean steel shake-up

By John Burton in Seoul

South Korea's Pohang Iron & Steel (Posco), the world's second largest steelmaker, yesterday signed a Won719.4bn *($821.6m) deal to acquire* several operations from debt-ridden Sammi Steel as part of a restructuring of the Korean steel industry.

State-run Posco will take over Sammi's domestic production of steel bars and pipes in an attempt to provide financ*ing for Sammi, which has* debts of $1.2bn. Sammi will concentrate on its main business of speciality steel sheets.

The deal is Posco's second attempt recently to take over troubled parts of the Korean steel *industry. Earlier this* month, it assumed temporary *management control of* bankrupt Hanbo Steel, the nation's second biggest steel producer.

Posco agreed to pay Won619.4bn for two of Sammi's steel plants, with a combined production capacity of 750,000 tonnes.

It also agreed to pay Won100bn in royalties for steel technology developed by Sammi. Sammi had demanded Won300bn and the two sides agreed that a third party research institution would make a final decision later.

Also *subject to future negoti*ations are Sammi's two unprofitable North American speciality steel operations.

The two sides disagree on the potential asset value of Sammi Atlas in Canada and Sammi Altech in the US, and this has delayed the sale. Sammi had originally asked Won1,139bn for the two busi*nesses, which account for* about half its sales.

Sammi's overseas expansion has been largely responsible for its debts.

The deal will leave Sammi with one domestic plant which produces 250,000 tonnes of stainless steel sheets and coils. *Meanwhile, Posco said that the* construction of the Hanbo steelworks, believed to be the world's sixth largest steel mill, would not be completed until next year, three to six months behind schedule.

The delay is because of problems financing the restart of *construction,* which was suspended after Hanbo filed for bankruptcy in January, and the need to install infrastructure facilities, such as a harbour wharf and power generation plant.

Estimates suggest that Won2,000bn may be needed to complete the plant, which has already cost Won5,700bn. Posco may decide to halt construction of some auxiliary facilities to save costs.

Because of its heavy debts, Hanbo Steel may not be able to *find an outside buyer once the* plant is completed. This has led to speculation that the state will nationalise the facility or force Posco to acquire it.

London Clubs in £178m hostile bid for casino group

By Scheherazade Daneshkhu in London

London Clubs International, operator of the Ritz and Les Ambassadeurs casinos, yesterday placed a bet on winning a larger share of the London casino market with a £178m ($288m) hostile bid for Capital *Corporation.*

Capital operates two of London's oldest and most famous casinos – Crockfords and the Colony Club.

Last month, Capital Corporation issued a profits warning, *saying 1996 pre-tax profits* were likely to undershoot market expectations by as much as 35 per cent.

Its shares have been under pressure after poor trading and management changes.

A *successful* takeover would give London Clubs, which already has between 40-45 per cent of the London casino market, a further 15 per cent, raising possible monopoly issues.

It said its offer would lapse if the proposed *acquisition* was referred to the Monopolies and Mergers Commission.

London Clubs is offering 47 new London Clubs shares for every 100 Capital Corporation shares. At last night's close this valued Capital Corporation at £178m and each of the target's shares at 178p. There is no cash alternative.

Alan Goodenough: the bid price was 'full and generous'

Capital's shares rose 15¼p last night to close at 186¼, *reflecting the market's belief* that the bid will have to be raised.

London Clubs' shares shed 6½p to close at 378½p.

Mr Alan Hearn, Capital chief executive since October, said the company would defend itself vigorously.

"This bid is *wholly* unwelcome. It nowhere represents *the value of* the business."

Mr Alan Goodenough, Lon*don Clubs chief executive, said* the price was "full and generous". He said a merged group would benefit from economies of scale and would have greater firepower to invest in newly-emerging casinos oppor*tunities overseas.*

"It's a bolt-on opportunity," he added.

Last month, London Clubs, which has operations in France, Egypt and Beirut, became the first UK company *to move into the lucrative* US gaming market by paying $50m for a 25 per cent stake in a new Las Vegas gambling and hotel complex.

Analysts viewed its decision to bid for Capital Corporation *as opportunistic* and based on the strength of its share price relative to that of Capital Corporation's.

Mr Jason Streets, leisure analyst at ABN AMRO Hoare Govett said: "It's a finely *pitched* bid that will be difficult to resist."

There was speculation that Ladbroke, which is looking for a fifth London casino, might counter-bid but some analysts thought it would not be prepared to pay *as much as* London Clubs. Ladbroke would *not comment.*

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Brazilian brokers warn over new transaction tax

By Jonathan Wheatley in São Paulo

A new tax on financial transactions in Brazil, known as the CPMF, could increase the flow of foreign funds away from Brazil's markets and into overseas depositary receipts, according to local stockbrokers.

"Our biggest worry is that the CPMF could drive capital markets offshore," said Mr Robert Barclay of Bozano Simonsen, a Rio de Janeiro investment bank. "People are very sensitive to the cost of buying shares and this is the kind of nuisance they will try to avoid."

The CPMF (provisional contribution on financial operations) tax is the brainchild of Mr Adib Jatene, former health minister, who persuaded President Fernando Henrique Cardoso to back his call for a temporary tax to cover shortfalls in health spending. Eventually he pressed his budget demands too hard and was forced to resign, but not before securing congressional approval for his new tax. It was introduced on January 23 and the government hopes it will raise between $4bn and $5bn in 13 months.

The tax is levied at 0.2 per cent on all financial transactions.

Aware of the effect this could have on foreign equity investments, the government granted them a partial exemption: the tax applies to foreign funds entering and leaving the country on foreign exchange markets, but is not charged if funds move from one investment to another while in Brazil.

Even so, Mr Barclay feared the total levy of 0.4 per cent would be enough to persuade some investors to switch funds into depositary receipts. "There is already a tendency for investors to move to New York because trading in DRs is cheaper," he said. "Now it is cheaper still."

There are signs that the tax is already taking effect. Mr Alberto Alves Sobrinho of Fair Corretora, a Sao Paulo brokerage, reckons daily trading in Brazilian DRs has increased by about 10 per cent in the three and a half weeks since the CPMF was introduced. "We can expect that percentage to grow," he says.

Analysts say the partial exemption granted to foreign investors indicates government recognition that the tax may be damaging. Concern over Brazil's worsening current account deficit may yet persuade it to exempt foreign equity investments altogether.

"The government must pay attention to short-term capital inflows," said Mr Rodrigo Fiães of Icatu, another Rio investment bank. "They cannot afford to turn away more than $3.5bn."

Investors also worry about the effect of the tax on corporate earnings. Many companies will be forced to absorb the tax themselves. And they will pay the tax more than once – a World Bank study shows that manufacturing in Brazil involves an average of six different stages, which means average costs will increase by 1.5 per cent. Mr Dany Rappaport, of consultants MCM in São Paulo, said the result would be to punish efficiency.

"Manufacturers are already operating on tight margins, so they will try to cut production costs," he said. "They will waste time looking for other ways to reduce their exposure to the tax instead of concentrating on their main objective."

The tax is not all bad. It is easy to collect and, at least for personal taxpayers, is equitable. The money it will raise is needed in the health service and the government may even welcome its effects on the real economy.

But none of these arguments satisfies capital markets. "If you want to raise taxes there are all sorts of ways of doing it," said Mr Barclay, at Bozano Simonsen. "You do not need a flawed tax like the CPMF."

Peru family firm indulges in its fancies

The Custer brothers have followed their own particular interests, writes Sally Bowen

Tony Custer: providing gourmet chicken meals, designing the uniforms and acting as delivery boy taught him most of what he knows about business

When Lima's newest and classiest five-star hotel opened three months ago, it allowed a rare glimpse of one of Peru's most successful but reclusive businessmen: Jacques Richard Custer, of the family-owned firm Richard O. Custer.

Mr Custer retired from the core business in 1990, after about 30 years in charge, to indulge his interest in developing luxury hotels. The 75-year-old distribution and manufacturing company, one of Peru's largest in terms of sales, is now run by the third generation of Custers, and reflects the way many Latin American family firms are shaped by the personalities involved.

Jacques Custer's three sons could hardly be more different. Richard, the eldest, is charming and courteous but, like his father, publicity shy. Andy, the middle brother, plays no active part in the family business but is working within a foundation for dyslexic children set up with his younger brother.

Irrepressible, talented and gregarious, the youngest brother, Fellpe Antonio (Tony) Custer, appears to have inherited his grandfather's drive. A Harvard graduate with an MBA from the same institution, Tony Custer loves books, seascapes, boat design and cooking – and relaxes by playing guitar.

A business degree was useful "as a piece of paper and in helping to analyse problems", he says, "but I really went to school in my chicken restaurant in Miami". Providing gourmet chicken meals, inventing the marinades, designing the uniforms and acting as delivery boy taught him most of what he knows about business, he says.

Shortly after Jacques Custer retired, the then newly-elected President Alberto Fujimori applied a "shock" economic stabilisation programme to the chaotic economy. With phenomenally high interest rates and the local currency heavily overvalued against the dollar, there was a two-and-a-half year battle to keep the business afloat.

"It was traumatic for everyone, especially for my brother Ricky, who shouldered the main burden," says Tony Custer, who was still in Miami at that stage. "But we adapted, and made it at the eleventh hour."

Essential restructuring of the business followed, with affiliated companies in Ecuador and Bolivia pitching in to help the company survive. Once it dug its way out of trouble, Richard took over the core business under the holding Empresas Richard Custer (ERC), while Tony pulled together the accumulated subsidiaries into the Consumer Products Group (CPG) which he now heads. This includes Demsa, the largest supplier to Peruvian industry of corn starch and glucose inputs for the food industry; Provita, producer of a wide range of jams and puddings; and a 40 per cent stake in the long-standing joint venture with Hoecsht Marion Roussel – the local Peruvian branch produces medicines under licence.

The original distribution business retains an exclusive agreement with Procter & Gamble to distribute over-the-counter pharmaceutical and beauty products, plus New Zealand Dairy Board products and HRM pharmaceuticals. ERC's combined 1996 sales were estimated at about $200m.

Tony Custer shows no regret at having swapped Coconut Grove for Lima. Late last year, CPG bought out its arch-rival, the Calox distribution chain in Ecuador (1997 sales are forecast at $27m). The pairing of the two companies has produced "the synergies I was counting on much faster than I expected". CPG sales increased from $64m in 1995 to $92m last year, and should top $114m in 1997.

CPG has interests in Peru, Ecuador and Costa Rica and projects in Colombia, El Salvador and Guatemala, while ERC retains long-standing links with Bolivia. CPG is concentrating on brand acquisitions and new joint ventures, especially with large international foodstuffs companies which may not want to set up in Peru alone. It will look for niche local and export markets in areas where Peru has a competitive edge: in food processing, for example.

One advantage of a family firm is that, given that the core business is operating smoothly, you can indulge your fancies – which Jacques Custer has done with the highly-regarded Orotels chain of hotels. Although the Swiss family background may have influenced his fondness for fine hotels, Tony's version is that father "had been going to Guayaquil for years and never got a night's sleep in a good hotel, so he built one".

The Custer hotel management company now runs the chain, which consists of four luxury Oro Verde hotels in Ecuador as well as the new one in Lima, which cost its Peruvian, Ecuadorean and Swiss investors about $40m.

Richard Custer, meanwhile, has his own particular interests: a firm that provides electronic security for banks and another for asparagus export. "I love agribusiness and wanted to get into it for a long time: now I have," he says with quiet satisfaction.

So far, the Custers have kept their business firmly in the family. "We're not afraid of private placements, however," says Tony Custer. CPG did a dry run in 1995, with a "very small roadshow in New York – but we learned what to do to be interesting". He contemplates an initial public offering or a private placement "within 24 months".

The holding company ERC is evaluating a formal partnership with Chile's Luksic group, with which the Custers already have strong business links. A share offering is "on the cards within a couple of years," says Richard Custer. "We're rebuilding our equity base. We're Peru's leading distributor and we're proud of that."

This is the third in a series. Previous articles appeared on January 17 and January 27

AMERICAS NEWS DIGEST

Canada eases curbs on foreign banks

The Canadian government is finally easing restrictions on foreign banks operating in Canada, allowing them to open directly-owned branches and use parent capital resources for lending in Canada. The legislative changes, which were tabled in Ottawa on Friday, represent a significant liberalisation of the existing regime, which requires foreign banks' subsidiary operations in Canada to use their own capital base.

The foreign banks, led by Hongkong Bank of Canada, the largest, have long argued that the present regime raised their costs unreasonably and hampered their ability to compete. Canada's foreign banks have dipped from a total of 59 in 1987 to 45 because of the restrictions.

"Foreign banks will now be able to offer more competitive wholesale loan rates to Canadian operations," said Mr Fred Buhler, chief executive of Bank of America, Canada. Mr Youssef Nasr, deputy chief executive of Hongkong Bank of Canada, said his company could continue to operate its retail network through a subsidiary as before, but setting up direct branches of the parent, HSBC Holdings of the UK, would enlarge its wholesale banking market. HSBC's capital base is 25 to 30 times that of the existing Canadian subsidiary.

The foreign banks' direct branches will not be able to take deposits in Canada and can opt out of Canada's deposit insurance programme. Hongkong Bank of Canada is one of the few with a retail network.

Robert Gibbens, Montreal

Telebras eyes Yankee market

Brazil's federally owned telecommunication giant Telebras hopes to tap the US Yankee bond market this year, the company's chief financial officer Mr Sergio Pereira said. "We expect that by the end of March, the Central Bank will answer our request to do a Yankee issue," Mr Pereira said.

Although he refused to say how much Telebras would seek to tap from the US market, he added that "it makes no sense to do a Yankee issue below $300m". The Yankee issue would be part of $500m the company wants to tap this year. Telebras last visited world debt markets in February 1996 when it raised the equivalent of $317m in Italian lire, Mr Pereira said.

To date, no large Brazilian firm has issued debt in the US Yankee bond market, which is more restrictive than the Eurobond market. Mr Pereira said Telebras was meeting US credit rating agencies Standard & Poor's and Moody's, which it hopes will rate the new issue. Both agencies wanted to see Telebras' 1996 results before they rated the paper.

Reuter, Rio de Janeiro

Sudamtex advances

Sudamtex de Venezuela, the textile and fibres company, announced a net profit of 6.3bn bolivars ($13.26m) for the six-month period ending December 31 1996, up 22.7 per cent over the same period in 1995. Net sales grew in nominal terms but suffered a 12.9 per cent decrease in real or inflation-adjusted terms to 33.7bn bolivars for the six month period. This decrease was compensated for by lower production and financial costs. A significant share of Sudamtex's sales are dollar-denominated, while the exchange rate of the bolivar, has remained stable since May 1996.

Raymond Colitt, Caracas

Magna 'in German bid'

Magna, the international car parts manufacturer, is bidding about US$300m for German seat-maker Keiper Recaro, according to industry sources, but may face opposition from France's Bertrand Faure and the leading US seat-makers, Lear and Johnson Controls. No immediate comment was available from Magna.

Toronto-based Magna makes a variety of metal and plastic components for cars and light trucks in North America and Europe, and has nearly $1bn available for acquisitions. Following a recent US acquisition it is the third-largest North American seat-maker, behind Lear and Johnson.

Magna and Keiper recently formed a joint venture to make seats for a new General Motors model in the US. Keiper also supplies seats to the principal German car makers.

Last December Magna sold 80 per cent of its airbag business to TRW, of the US, in a deal worth more than $400m.

Robert Gibbens

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Know Us By Our Experience In Global Mergers And Acquisitions 1996

Client	Transaction	Value
General Motors Corporation	Completion of the split-off of Electronic Data Systems Corporation to its former Class "E" stockholders	US$29,687,700,000
Loral Corporation	Sale of the Company to Lockheed Martin Corporation and simultaneous spin-off of Loral Space & Communications Ltd. to Loral shareholders	12,000,000,000
U S WEST, Inc. (on behalf of its U S WEST Media Group)	Acquisition of Continental Cablevision, Inc.	11,800,000,000
PanEnergy Corp	*Merger with Duke Power Company (Pending)*	9,973,200,000
Ameritech International, Inc. and Singapore Telecommunications Limited (in consortium with Tele Danmark A/S)	Acquisition of a 50% less one share interest in Belgacom S.A.	5,077,000,000
Levi Strauss & Co.	Advisor to Investment Committee regarding sale of Class E common stock in connection with LSAI Holding Corp. merger	4,300,000,000
BankAmerica Corporation	Acquisition of Transportation and Industrial Financing Assets of USL Capital Corporation	3,500,000,000
Petro-Canada	Share capital reorganization	3,500,000,000
Meridian Bancorp, Inc.	Merged with CoreStates Financial Corp	3,233,000,000
IVAX Corporation	Merger with Bergen Brunswig Corporation to form BBI Healthcare Corporation *(Pending)*	2,366,000,000
CBI Industries, Inc.	Acquired by Praxair, Inc.	2,224,000,000
Compagnie Financière Richemont AG and NetHold BV	Merger between CANAL+ SA and NetHold's European operations (Pending)	2,200,000,000
Deutsche Postbank AG	Advice relating to an unsolicited takeover attempt of Deutsche Postbank AG by a consortium including Deutsche Post AG, Deutsche Bank AG and Swiss Re	2,200,000,000
Keystone Holdings, Inc./American Savings Bank, F.A.	Acquired by Washington Mutual, Inc.	2,160,000,000
Triton Energy Corporation	Reorganization of Triton Energy Corporation into Triton Energy Limited, a Cayman Islands company	1,750,000,000
HFS Incorporated	Merger with PHH Corporation (Pending)	1,700,000,000
AirTouch Communications Inc.	Acquisition of remaining 63% of Cellular Communications Inc.	1,650,000,000
IMC Global, Inc.	Acquisition through merger of The Vigoro Corporation	1,610,000,000
Comcast Corporation	Acquisition of The E.W. Scripps Company cable properties	1,575,000,000
Santa Fe Energy Resources	Restructuring and spin-off of Monterey Resources (Pending)	1,450,000,000
The Continuum Company, Inc.	Merger with Computer Sciences Corporation	1,411,000,000
Safeway Inc. (Advisor to the Special Committee *of the Board of Directors)*	Repurchase of 32 million shares of Safeway Inc. from KKR and/or its affiliates (Pending)	1,376,000,000
Alco Standard Corporation	Spin-off of Unisource Worldwide, Inc.	1,364,475,000
Forstmann Little & Co.	Acquisition of Community Health Systems, Inc.	1,276,000,000
Mesa Inc.	Equity investment by Rainwater, Inc. and recapitalization	1,265,000,000
Aerovías de México, S.A. de C.V. and Corporación Mexicana de Aviación, S.A. de C.V.	Exchange of shares of Aerovías de México, S.A. de C.V. and shares of Corporación Mexicana de Aviación, S.A. de C.V. for shares of Cintra, S.A. de C.V.	1,250,000,000
NAV CANADA	*Acquisition of Canadian Civil Air Navigation System*	1,100,000,000
NGC Corporation	Acquisition of the Warren Petroleum and Gas Marketing Businesses from Chevron Corporation	1,013,400,000
MobileMedia Corporation	Acquisition of BellSouth Corp.'s MobileComm paging subsidiary and its two-way nationwide narrowband Personal Communications Services License	928,700,000
Baxter International Inc.	Spin-off of Allegiance Corporation	924,800,000
Avis, Inc.	Acquired by HFS Incorporated	800,000,000
Sammons Communications, Inc.	Sale of certain cable systems to Lenfest Communications, Inc. and TKR Cable, Inc.	800,000,000
Hoechst Schering AgrEvo GmbH	Acquisition of PGS International N.V.	725,000,000
Cobra Golf Incorporated	Acquired by American Brands, Inc.	720,000,000
The Coastal Corporation	Sale of western coal operations to Atlantic Richfield Company and ITOCHU Corporation	615,000,000
South West Property Trust Inc.	Merger with United Dominion Realty Trust, Inc.	585,000,000
Air Products and Chemicals, Inc.	Acquisition of 96.7% of Sociedad Española de Carburos Metalicos, S.A.	573,000,000
Ralcorp Holdings, Inc.	Sale of its branded ready-to-eat cereal and snack business to General Mills, Inc. (Pending)	570,000,000
RF&P Corporation (a subsidiary of Virginia Retirement System)	Sale of a 100% interest to LF Strategic Realty Investors, L.P.	570,000,000
National Empowerment Consortium ("NEC")	*Acquisition of 35% of Johnnies Industrial Corporation Limited ("Johnnic")* from Anglo American Corporation of South Africa Limited	*566,000,000*
Grupo Empresarial Agricola Mexicano S.A. de C.V.	Sale of its subsidiary, Fresh Del Monte Produce NV, to IAT Group, Inc. and its subsidiary, United Trading Company Desarollo & Comerico SA of Santiago, Chile	534,000,000
Republic New York Corporation	Acquisition of Brooklyn Bancorp, Inc.	530,000,000
Boston Scientific Corporation	Acquisition of Heart Technology, Inc.	500,000,000
Applied Bioscience International Inc.	Merger with Pharmaceutical Product Development, Inc.	483,000,000
Strawbridge & Clothier	*Acquired by May Department Stores Co. and Kimco Realty Company (Pending)*	*480,000,000*
Parisian, Inc.	Acquired by Proffitt's, Inc.	465,400,000
Kellogg Company	Acquisition of the Lender's Bagels Unit of Kraft Foods, Inc.	455,000,000
Bank Austria AG	Sale of a 10.3% stake to Westdeutsche Landesbank Girozentrale	445,500,000
Quantum Health Resources, Inc.	Acquired by The Olsten Corporation	361,400,000
Meridian Bancorp, Inc.	Acquisition of United Counties Bancorporation	360,000,000
Teva Pharmaceutical Industries Limited	Acquisition of Biocraft Laboratories, Inc.	356,100,000
Energy Ventures, Inc.	*Sale of its subsidiary, Mallard Drilling, to Parker Drilling Company*	338,000,000
General Electric Capital Corporation (through General Electric Capital Asia Investments, Inc.)	Acquisition of Marubeni Car System Corporation	300,000,000
Sun Company, Inc. and Sun Oil Britain Ltd.	Sale of Sun Oil Britain Ltd. to Agip (U.K.) Limited	291,000,000
BBA Group PLC	Acquisition of International Airmotive Holdings Co. (Pending)	289,000,000
Singapore Telecom International Pte Limited	Sale of its 50% interest in Yorkshire Cable Group Limited to General Cable PLC	278,000,000
Brooktree Corporation	Acquired by Rockwell International Corporation	275,000,000
Great Western Financial Corporation	Sale of Great Western Financial Services and associated assets to Anstar, Inc.	250,000,000
Securicor plc	Acquisition of Intek Diversified Corp.	250,000,000
The British Petroleum Company Plc	Sale of the Marcus Hook Refinery to Tosco Corporation	235,000,000
Dana Corporation	*Acquisition of the Sealed Power Division of SPX Corporation (Pending)*	*235,000,000*
Sun Communities, Inc.	Acquisition of manufactured housing community business and portfolio of Aspen Enterprises, Ltd.	226,000,000
PCI Services, Inc.	Acquired by Cardinal Health, Inc. in an exchange of shares	206,000,000
Retail Property Investors, Inc.	Sale of its assets to Glimcher Realty Trust	197,000,000
HS Resources Inc.	Acquisition of Tide Water Oil Company	196,200,000
Ball Corporation	Sale of its remaining 42% stake in Ball-Foster Glass Container Co. to Compagnie de Saint-Gobain SA	190,000,000
Rakepoll Finance N.V.	Merger of its subsidiaries SICOR S.p.A., Sintesis Lerma S.A. de C.V. and Lemery S.A. de C.V. with Gensia, Inc. (Pending)	187,600,000
Pennzoil Company	Sale of certain Canadian E&P assets to Gulf Canada Resources Limited	184,000,000
Chicago Dock and Canal Trust	Acquired by CityFront Center, L.L.C. (Pending)	*174,600,000*
Varlen Corporation	Acquisition of Brenco, Incorporated	174,000,000
CheckFree Corporation	Acquisition of Servantis Systems Holdings Inc.	172,200,000
Castle Harlan Partners II, L.P.	Acquisition of the class ring and scholastic businesses of CJC Holdings, Inc. and L.G. Balfour Company, Inc.	171,200,000
Boston Scientific Corporation	Acquisition of EP Technologies, Inc.	169,200,000
American National Power (a subsidiary of *National Power PLC)*	Acquisition of Milford, Massachusetts independent power project from Enron *Corporation and Jones Capital Corporation*	163,500,000
C-Cube Microsystems Inc.	Acquisition of DiviCom Inc.	162,000,000
Banco Alcalá, S.A.	Sale of Banco Granada Jerez to Caja de Ahorros y Pensiones de Barcelona (la Caixa)	160,000,000
Sperry Marine Inc.	Acquired by Litton Industries Inc.	158,000,000
Lehman Brothers Holdings Inc.	Sale of a portfolio of South Florida shopping centers to Colony Capital Inc.	*157,000,000*
One Stop Mortgage, Inc.	Acquired by Aames Financial Corporation	141,400,000
Oclassen Pharmaceuticals, Inc.	Acquired by Watson Pharmaceuticals, Inc. (Pending)	135,000,000
HS Resources Inc.	Acquisition of Basin Exploration's D-J Basin assets	125,500,000
Singapore Telecom International Pte Limited	Sale of its 50% interest in Cambridge Holding Company Limited to Comcast UK Cable Partners Limited in exchange for 8,859,663 shares in Comcast UK Cable Partners	122,900,000
Chiroscience Group plc	*Merger with Darwin Molecular Corporation*	120,000,000
Empire Energy Corporation	Acquired by Northwestern Public Service Co.	120,000,000
Hoechst AG	Sale of 49% of the human vaccine business of its Behringwerke AG subsidiary to Chiron Corporation	117,800,000
Microtec Research, Inc.	Merger with Mentor Graphics Corporation	*117,000,000*
The Albert Fisher Group PLC	Sale of its North American Distribution business to RC Distribution Holdings, Inc., a company organized and controlled by Rosecliff, Inc.	115,000,000
Lehman Brothers Merchant Banking Partnerships	Sale of its 18.3 percent interest in Space Systems/Loral, Inc. to Loral Space & Communications Ltd.	113,900,000
Philip Morris Companies Inc. and Kraft Jacobs Suchard Ltd.	Sale of the United Kingdom Margarine and Spreads Business to Unigate PLC	107,304,000
International Jensen Incorporated	Acquired by Recoton Corporation	105,000,000
Alliance Pharmaceutical Corp.	Strategic Alliance with Hoechst Marion Roussel	100,000,000
Fincantieri Cantieri Navali Italiani S.p.A.	Acquisition of the remaining 50% interest in New Sulzer Diesel AG and New Sulzer Diesel NV held by Bremer Vulkan Verbund AG	96,000,000
Setdco Group	Acquisition of a 5% equity interest of PT. Telkomsel	*95,000,000*
Executive Risk Inc.	Repurchase of 2.51 million of its shares held by Aetna Life & Casualty Co.	75,000,000
Heritable Group PLC and its main operating subsidiary, *Heritable Finance Limited*	Acquired from its shareholder group by Cityscape Financial Corporation	66,000,000
MDT Corporation	Acquired by Getinge Industrier AB	62,800,000
Eastman Kodak Company	Acquisition of a 51 percent stake in Fox Photo, Inc., a subsidiary of CPI Corp.	US$56,100,000
Polaroid Corporation	Purchase of conversion rights exercisable into 4.3 million common shares	54,000,000
Christopherson Heath Group Limited	*Acquired by Cox Insurance Holdings Plc*	*53,000,000*
Rhône-Poulenc Rorer Inc.	Sale of its U.K. generics business, Approved Prescription Services Ltd., to Teva Pharmaceutical Industries Limited	52,700,000
BBA Group PLC	Sale of Duralay Limited to a new group formed by CINVen	51,000,000
Imperial Holly Corporation	Strategic investment by Greencore Group PLC in 3.8 million shares of newly issued common stock representing 27% of Imperial Holly shares outstanding after the sale	50,400,000
Arvida/JMB Partners, L.P.	Defense relating to hostile tender offer by Raleigh Capital Associates, L.P. (Pending)	50,000,000
American-Israeli Paper Mills Ltd.	Sale of a 49.9% interest in its wholly owned subsidiary, HOGLA Ltd., to Kimberly-Clark Corp.	49,900,000
Ohmeda Inc.	Sale of its subsidiary, Delta Biotechnology Limited, to Centeon L.L.C.	45,000,000
BBA Group PLC	Acquisition of Acadia Partners L.P. 32% interest in BBA's Signature Flight *Support Corporation subsidiary*	44,700,000
Elsag Bailey Process Automation N.V.	Acquisition of the Process Automation Division of Elsag Bailey Italia from Finmeccanica S.p.A. (Pending)	42,100,000
Borg-Warner Automotive, Inc.	Sale of its North American transmission business to Transmisiones y Equipos Mecanicos S.A. de C.V.	40,000,000
Arvida/JMB Partners, L.P.	Defense relating to hostile tender offer by Raleigh Capital Associates, L.P.	36,700,000
Survival Technology, Inc.	Merger with Brunswick Biomedical Corporation (renamed Meridian MedTec Inc.)	32,400,000
Tesoro Petroleum Corporation	Acquisition of Coastwide Energy Services, Inc.	24,000,000
Inhale Therapeutic Systems	Sale of an equity stake to Baxter International Inc.	20,000,000
General Automotive Corporation	Sale of assets of The Flxible Corporation to Universal Coach Parts Inc.	15,200,000
Kerr Group, Inc.	Sale of assets of the Consumer Products Business to Alltrista Corporation	14,500,000
Philip Morris Companies Inc. and Kraft General Foods S.p.A.	*Sale of the Italian Margarine and Spreads Business to Unigate PLC*	12,396,000
Ansaldo Trasporti SpA	Merger of its signaling systems with those of Compagnie des Signaux et Equipements Electroniques SA	Undisclosed
APM Incorporated	Acquired by Computer Sciences Corporation	Undisclosed
Automotive Moulding Co.	Acquired by Guardian Industries Corp.	Undisclosed
Ball Corporation	Acquisition of up to 75% of M.C. Packaging (Hong Kong) Limited (Pending)	Undetermined
Banco Bilbao Vizcaya, S.A.	Acquisition through Banco Bilbao Vizcaya-Mexico, S.A., Institucion de Banca Multiple, Grupo Financiero BBV-Probursa, the branch network of Banca Cremi, S.A., Institucion de Banca Multiple	Undisclosed
Banco Bilbao Vizcaya, S.A.	Acquisition through Banco Bilbao Vizcaya-Mexico, S.A., Institucion de Banca Multiple, Grupo Financiero BBV-Probursa, the branch network of Banco de Oriente, S.A., Institucion de Banca Multiple	Undisclosed
Bank Austria AG	Sale of an equity stake to Cariplo S.p.A.	Undisclosed
Bell Communications Research, Inc.	Acquired by Science Applications International Corporation (SAIC) (Pending)	Undisclosed
Bock Pharmacal Company	Acquired by Sanofi Winthrop Inc.	Undisclosed
Borg-Warner Security Corporation and Wingate Partners, L.P.	Merger of Loomis Armored Inc., an affiliate of Wingate Partners, with Wells Fargo Armored Service Corporation, a subsidiary of Borg-Warner (Pending)	Undisclosed
Braas GmbH, a 50.76%-owned subsidiary of Redland plc	*Restructuring of the European roof tile operations of Braas GmbH and Redland plc* involving the acquisition of the Redland plc roof tile operations and the set up of Redland Braas Building	Undisclosed
Bremer Vulkan Verbund AG	Sale of Neue Couthino Caro & Co. Trading GmbH to MPC Munchmeyer, Petersen & Co. KG	Undisclosed
The British Petroleum Company Plc	Sale of interest in Mobil Trust 109/Block 82/Unit to Shell Offshore Inc.	Undisclosed
The Brooklyn Union Gas Company	Sale of the 50% ownership interest in PennUnion Energy Services, L.L.C. of its subsidiary, BRING Gas Services Corp., to Pennzoil Company	Undisclosed
Caja de Ahorros de Badajoz	Acquisition of a 10% equity stake in Banco Nacional de Crédito Imobiliário from Grupo Americo Amorim	Undisclosed
Catlin Holdings Ltd	Sale of Lloyd's of London Managing Agency to Western General Insurance Ltd.	Undisclosed
Cerner Corporation	Strategic Partnership with Siemens Nixdorf Information Systems	Undisclosed
Chevron Corporation	Merger of the U.K. refining and marketing interests of its wholly owned subsidiary, Gulf Oil (Great Britain) Ltd., with those of Elf Oil U.K. Limited, a wholly owned subsidiary of Elf Aquitaine, and Murco Petroleum Limited, a wholly owned subsidiary of Murphy Oil Corporation (Pending)	Undisclosed
Compagnie Financière Richemont AG and NetHold BV	Spin-off to MIH Limited of NetHold's operations in Africa, the Middle East, Greece and Cyprus (Pending)	Undisclosed
Computervision Corporation	*Sale of its Open Service Solutions business to an investment group headed by* J.F. Lehman & Company (Pending)	*Undisclosed*
Connector Holding Company (an affiliate of Oak Industries Inc., and Bain Capital, Inc.)	Acquisition by Oak Industries Inc. of a 20% minority interest in Connector Holding Company from Bain Capital, Inc.	Undisclosed
Digital Domain, Inc.	Sale of a one-third stake to Cox Enterprises, Inc.	Undisclosed
DraftDirect Worldwide, Inc.	Acquired by The Interpublic Group of Companies, Inc.	Undisclosed
El *Monte de Sevilla y Huelva*	*Acquisition of a 10% equity stake in Banco Nacional de Crédito Imobiliário from* Grupo Americo Amorim	*Undisclosed*
EVEREN Capital Corporation	Acquisition of an initial 20% ownership interest in Mentor Investment Group, Inc., the asset management subsidiary of Wheat First Butcher Singer, Inc.	Undisclosed
EXOR Group S.A. and Madison Dearborn Partners, Inc.	Sale of Duo-Tang, Inc. to Continental Illinois Venture Corporation	Undisclosed
Fincantieri Cantieri Navali Italiani S.p.A.	Merger of its diesel engine activities with Wärtsilä Diesel International Oy (Pending)	Undisclosed
First Bank System, Inc.	Sale of selected mortgage banking operations to BankAmerica Corporation, Knutson Mortgage Corp. and Columbia National Inc.	Undisclosed
Harnischfeger Industries, Inc.	Sale of Elgar Electronics Corporation, a subsidiary of Dobson Park Industries PLC, to The Carlyle Group, GFI Energy Ventures LLC and the senior management of Elgar Electronics Corporation	Undisclosed
Harnischfeger Industries, Inc.	Sale of IRD Mechanalysis, a subsidiary of Dobson Park Industries PLC, to Entek Scientific Corporation	Undisclosed
Harnischfeger Industries, Inc.	Sale of PressTech, a subsidiary of Dobson Park Industries PLC, to management	Undisclosed
Hoechst AG and its subsidiary, Herberts GmbH	Acquisition of O'Brien Powder Products, Inc.	Undisclosed
Hoechst AG	Sale of its subsidiary, Henning Berlin GmbH, to Synthelabo, a subsidiary of L'Oreal	Undisclosed
International Business Machines Corporation	*Sale of Prodigy Services Co. to International Wireless Inc. and Prodigy Services Co.* management	Undisclosed
Istituto Nazionale delle Assicurazioni S.p.A. (INA)	Merger between its insurance subsidiary, CAMAT S.A., with the marine and aviation insurance division of Assurances Générales de France (AGF)	Undisclosed
J. Lewis Partners, L.P.	*Sale of AmeriServ Food Company to Nebco Evans Distribution Inc.,* a unit of Holberg Industries, Inc.	*Undisclosed*
Krone AG	Sale of a majority equity stake to Jenoptik AG	Undisclosed
Lehman Brothers Global Asset Management Inc.	Merger of its Selected Growth Stock Portfolio with AMT Capital Funds	Undisclosed
Lehman Brothers Holdings Inc.	Sale of domestic money market funds to Federated Investors	Undisclosed
Lehman Brothers Holdings Inc.	Sale of Lehman Brothers Global Asset Management unit to Legg Mason Inc.	Undisclosed
Lockheed Martin Corporation	*Acquisition of Summagraphics Corporation*	*Undisclosed*
London Life Insurance Co., a unit of London Life Insurance Group Inc.	Acquisition of The Prudential Insurance Company of America's Canadian Life Insurance Operations	Undisclosed
MagneTek Inc.	Sale of certain electrical repair operations to Grand Eagle Companies Inc.	Undisclosed
The McKinley Group, Inc.	Merger with Excite, Inc.	Undisclosed
NetHold B.V.	Acquisition of a further 12.5% stake in Telepiu S.r.l., the Italian pay-TV	Undisclosed
Network Peripherals Inc.	Acquisition of NuCom Systems, Inc.	Undisclosed
OMV Aktiengesellschaft	Sale of 70% of Chemie Linz GmbH, its wholly owned fine chemicals subsidiary, to DSM NV	Undisclosed
Pennzoil Company	Acquisition of the 50% ownership interest in PennUnion Energy Services, L.L.C. of BRING Gas Services Corp., a subsidiary of The Brooklyn Union Gas Company	Undisclosed
Petroleos de Venezuela, S.A.	*Privatization of Venezuelan Exploration Properties*	Undisclosed
Pinault Printemps Redoute	Sale of Pinault Equipment to an investor group	Undisclosed
Polygon Group	Sale of its shares in Chatham Re to Ecclesiastical Insurance Group plc	Undisclosed
Raychem Corporation	Sale of a portfolio of patents and related intellectual property to Medtronic, Inc.	Undisclosed
Reflex Systems	Sale of Reflex software to Parametric Technology Corporation	Undisclosed
The St. Paul Companies, Inc.	Acquisition of the Cassidy Davis Managing Agency (Pending)	Undisclosed
The St. Paul Companies, Inc.	Acquisition of the Gravett and Tilling Managing Agency (Pending)	Undisclosed
Seessel Holdings, Inc.	Acquired by Bruno's, Inc.	Undisclosed
Shell Oil Company	Sale of Assets and Business of Shell Polypropylene Company to Union Carbide Corporation	Undisclosed
State of New Jersey	Sale of Garden State Health Plan to AmeriChoice Corporation	Undisclosed
SyStemix, Inc.	*Financial Advisor to Independent Directors re: offer by Sandoz Ltd. to acquire the* remaining 27% of SyStemix, Inc.	—
Tandem Computers Inc.	Sale of its wholly owned subsidiary, UB Networks, to Newbridge Networks Corp. (Pending)	Undisclosed
Volkswagen Canada Inc.	Sale of Barrie Plant to Murray & Roberts Engineering Holdings Ltd.	Undisclosed
Wellman, Inc.	Acquisition of the polyethylene terephthalate (PET) packaging resins business from Akzo Nobel NV	Undisclosed
Witco Corporation	Sale of the Kendall®/Amalie® business unit of its Lubricants Group to Sun Company, Inc.	Undisclosed
Witco Corporation	Sale of the grease business unit of its subsidiary, Southwest Petro-Chem Inc., to Exxon Company, U.S.A.	Undisclosed
Witco Corporation	*Sale of the LubriMatic® and private label equipment business unit of its subsidiary,* Southwest Petro-Chem Inc., to Stant Corporation	*Undisclosed*
Wynn's International, Inc.	Sale of the principal operating assets of Wynn's Climate Systems, Inc. to Moog Automotive, Inc., a wholly owned subsidiary of Cooper Industries, Inc.	Undisclosed

Whether it's our leadership in capital markets, our relationships with major companies and governments, or our experience and capabilities in products and markets globally, businesses and investors are turning to Lehman Brothers.

LEHMAN BROTHERS

Kemira ends year ahead at FM851m

By Our Financial Staff

Strength in agro-business helped Kemira, the Finnish chemicals group, offset weakness in pigments to push up 1996 pre-tax profits to FM851m ($170m), or FM5.1 a share, from FM718m, or FM4 a share, a year earlier.

The result, struck on sales of FM13.47bn against FM13.28bn, was ahead of analysts' forecasts and initially welcomed by the Helsinki market, where the shares climbed FM1 to FM58 in the morning, before closing down FM0.40 at FM56.60 against a falling index.

The group said weakness in titanium dioxide, in which it is the world's third-biggest producer with 8 per cent of the market, was offset by favourable developments in agro-business, chemicals and paint.

Group sales were helped by improved demand for plant nutrients in Europe and larger sales volumes of industrial chemicals, it said.

Kemira's pigments division suffered an operating loss of FM21m, compared with a profit of FM255m a year earlier, with sales down 7 per cent at FM2.11bn.

The company said that it expected demand for titanium dioxide – a colouring agent used in the manufacture of paints, plastics and paper – to pick up, providing economic growth continued.

The price rises announced in December would also help. Mr Heimo Karinen, chief executive, was upbeat on the unit's prospects this year. "I believe that price hikes will be able to boost the unit to profitability," he said.

Kemira's chemicals business had operating profit of FM421m, ahead 11 per cent, on sales of FM3.1bn, up 10 per cent from a year earlier. Here, growth in industrial chemicals offset weakness in chemicals used in pulp and paper production, which was hit by falling demand.

Operating profits in the agro-business unit grew 14 per cent to FM746m on a 3 per cent year-on-year rise in sales to FM6.28bn.

The company expects further strength in this area, following the European Union's relaxation of its set-aside policy, under which 5 per cent of fields are to be left fallow instead of the current 10 per cent.

The paints division reported operating profits of FM222m, up from FM144m a year earlier on sales ahead 8 per cent at FM1.52bn.

On the outlook for the group, Mr Karinen said he had "no reason to doubt a continuation of the good development" for this year.

He said the agro-business side was in talks on a tie-up in China, an important export market for company, which might involve joint production.

Solvay keeps its shine

The shares have risen despite the company's poor performance

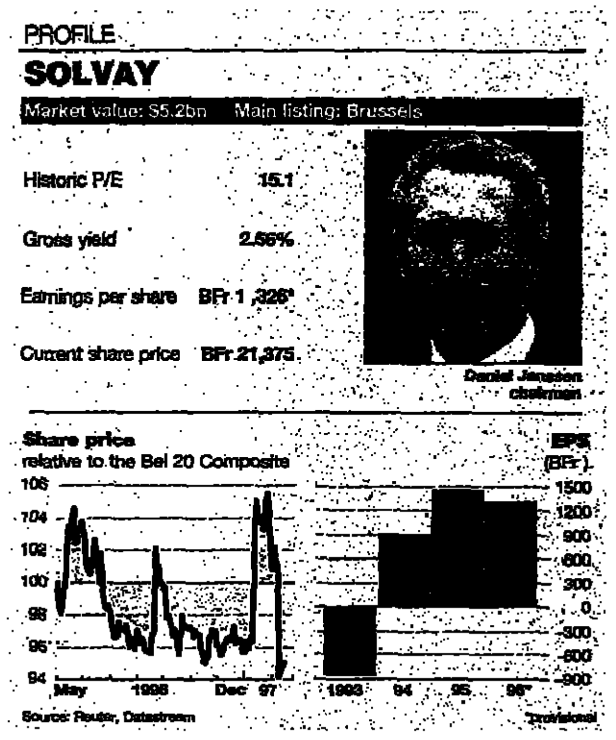
After the irrational exuberance come the explanations. So it goes with Solvay, Belgium's largest chemicals company.

Last month, Solvay's share price soared. The movement owed nothing to the company's current, or even likely, business performance, according to analysts based in Brussels.

The shares, which last year traded between BFr17,000 and BFr18,000, climbed to a peak of BFr23,300 on January 23.

The rise followed profit downgrades, as analysts cut their forecasts to reflect anticipated underperformance in the group's core bulk chemicals businesses.

Last week, the company confirmed such gloom by unveiling an 8 per cent decline in profits last year, to BFr11.5bn ($331m). But even this has failed to remove the share's shine. It is now trading at about BFr21,000.



The inherent contradiction between the company's poor operational performance and its buoyant share price has proved fertile ground for creative reasoning. "Some are suggesting the movement is a re-rating prompted by the company's expansion into pharmaceuticals," one Brussels-based analyst says, "but there is no evidence at all that Solvay deserves such a re-rating."

Indeed, the theory is flawed in two ways. To begin with, health, Solvay's smallest division, accounted for just 16 per cent of group sales last year.

Other chemicals companies striving to unlock the value of their drugs businesses are far more dependent on the sector. Typical is Hoechst of Germany, where life sciences are expected to account for about 37 per cent of sales this year.

Another example is UCB, also of Belgium, which last year secured a re-rating from a chemicals to pharmaceuticals stock but which also saw two-thirds of pre-tax profits coming from its drugs business.

The second obstacle to a re-rating is the quality of Solvay's health business. Pharmaceutical companies typically command a share price/earnings multiple of around 20, but they also achieve profit margins of anywhere up to 30 per cent.

These figures compare with price/earnings multiples of between 8 and 10, and margins of 10 per cent or lower, in the rest of the chemicals sector.

Last year, operating margins at Solvay's pharmaceuticals business topped 10 per cent. Although this represents a 3 percentage point improvement over the past three years, such returns remain a far cry from those normally associated with the drugs industry.

Furthermore, Solvay's margin enhancement has been driven by moves, such as the disposal of the group's lossmaking industrial enzymes business, which will do nothing to improve returns further.

Meanwhile, the improved health margin needs to be viewed against the volatile returns in the other, highly cyclical, 85 per cent of the business. And Solvay remains committed to its chemicals portfolio.

At the end of last year it acquired a Bulgarian soda ash factory; last month, it bought a Finnish hydrogen peroxide plant. "These are very basic chemical products, and very volatile," one analyst says.

Another possible reason for the share price rise is the strength of the group's research and development pipeline in anti-depressant drugs. But most analysts pour cold water on this theory, too. The group's upcoming anti-depressant has considerable potential, but it is at an early stage of trials.

"I have never seen a pharmaceuticals company derive so much from a drug still three years away from commercialisation," says one analyst says.

It seems the reason for Solvay's rise lies not in chemicals, nor in anti-depressants, but rather in shareholders' unfamiliarity with both.

Belgian investors last month received the meagre interest payments accrued on savings accounts during 1996. Such payments coincided with reports of the impressive gains of the Belgian stock exchange last year. "This created a rush of liquidity," one analyst says. "These are individuals, looking for an investment, almost indifferent to the price of the shares, buying anyway."

So, if price is unimportant, what does matter? The answer is hidden potential. Solvay's shares performed badly last year, when other European chemical stocks did not. It is possible that Solvay might be the Bel-20 share with some catching up to do, even after the stock market surge of 1996.

But investors who are betting on this chance appear to be overlooking the reason for last year's underperformance: Solvay is, and remains, a bulk chemicals company operating in some very testing markets.

Jenny Luesby

EUROPEAN NEWS DIGEST

Fuchs to step down at First Austrian

Mr Konrad Fuchs, chief executive of First Austrian Bank, the country's third-biggest bank, has decided to retire a year early so that a new chief executive can oversee the bank's involvement in the forthcoming restructuring of the Austrian banking system.

Mr Fuchs said it was important that a new management team was in place to take advantage of opportunities arising from the planned takeover of Creditanstalt, Austria's second-biggest bank, by Bank Austria, the biggest. The merger is likely to trigger a restructuring of the rest of the banking system.

First Austrian, the country's oldest savings bank, has made a number of unsuccessful takeover bids, and last year failed in a consortium bid for Creditanstalt. Mr Fuchs said yesterday his retirement was not related to this.

First Austrian is expected to decide on Mr Fuchs' successor within the next two or three weeks. The two inside contenders are Mr Wolfgang Ulrich, deputy chief executive, and Mr Andrea Treichl, a former Chase Manhattan executive and son of a former chairman of Creditanstalt.

William Hall, Zurich

Knorr-Bremse in brakes buy

Knorr-Bremse of Germany and AlliedSignal of the US, which jointly operate one of the world's biggest makers of truck brake systems, have bought the heavy-truck air brake systems businesses of Echlin, a US motor components company. The businesses to be acquired, called Midland Brake in the US and Grau in Europe, employ about 2,300 people and have annual sales of some $320m. The joint venture between Knorr and AlliedSignal has annual sales of $720m. The deal awaits confirmation from antitrust authorities. Terms were not disclosed.

Peter Marsh

Polish railway secures loan

PKP, Poland's state-owned railway, has arranged a 633m zloty ($129m) loan with a consortium of five local banks, to buy rolling stock. The financing was necessary so that PKP could make a firm order for 50 locomotives from the Pawafag factory in Wroclaw. Without this order, ADtranz, the transport equipment producer owned jointly by ABB and Daimler-Benz, refused to buy the factory.

The 10-year loan, one of the largest to come from the Polish banking system to date, has been arranged by the listed Export Development Bank. The four other banks involved are the listed Polski Bank Rozwoju, state-owned Pekao and Bank Handlowy and Powszechny Bank Kredytowy, both of which are to be privatised this year.

Christopher Bobinski, Warsaw

Mol improves profitability

Mol, the main Hungarian oil and gas company, announced preliminary 1996 group profits of Ft25.3bn ($145m), up from only Ft900m in 1995. Consolidated revenue was Ft503bn, up from Ft370bn. The improvement in profits came mainly from the parent company, which reported an operating profit of Ft18.3bn, almost double the 1995 figure. The last quarter was particularly strong at Ft4.7bn. Mol's exploration and production division was a big contributor to the performance, with an operating profit of Ft19.7bn last year. The refining and marketing division made a Ft9.7bn operating profit.

Mr Zoltan Mandoki, chief executive, said the company had obtained better discounts on crude purchases and made improvements on restructuring downstream operations, which had led to efficiencies in inventory and better sales.

Kester Eddy, Budapest

Currency swings hit profits at SAS

By Hugh Carnegy in Stockholm

Profits at Scandinavian Airlines System slid 31 per cent in 1996, under the pressure of higher costs, adverse currency movements and increasing competition.

A worse-than-forecast fall in pre-tax profits in the fourth quarter, from SKr487m in fourth quarter 1995 to SKr365m ($49.6m), mainly caused by currency movements, stalled hopes of a year-end pick-up.

That left full year pre-tax earnings down from SKr2.6bn to SKr1.8bn.

The airline has undergone stringent cost-cutting exercises in recent years.

It expected further increases in competition this year, putting more pressure on fares and revenues. The carrier said it was taking "a number of measures" to "avoid a weakening of the 1997 result".

SAS, which is jointly owned by Danish, Norwegian and Swedish interests, achieved a 7 per cent increase in traffic in Europe during the year – slightly ahead of the industry average of 6 per cent. But this was insufficient to counter the factors working against the airline.

Turnover in the fourth quarter rose from SKr8.6bn to SKr9.1bn, but fell over the full year from SKr35.4bn to SKr35.2bn, chiefly because of currency movements.

SAS said turnover rose almost 7 per cent over the full year when adjusted for currency swings.

At the same time, the airline suffered a significant increase in costs, with operating expenses rising from SKr30.6bn to SKr31.5bn.

The outcome would have been worse – a near 11 per cent increase – but for currency changes.

Mr Jan Stenberg, chief executive, said he was "not at all satisfied" with the costs development. "We should have achieved a better result in this economic situation," he said.

He added the airline aimed to hold 1997 earnings at the level of 1996.

An 8 per cent increase in payroll costs, caused by an increase in the workforce and new wage agreements, was the main contributor to the rise in costs, SAS said. However, increases in fuel prices were also a factor.

The airline felt the effects of growing competition in 1996. With eight new competitors entering SAS's home Scandinavian markets, it lost market share in Denmark and Sweden.

It also warned of growing competition on its high-earning core routes between Copenhagen, Stockholm and Oslo.

There was a fall in the yield – the average passenger revenue per passenger kilometre – of 6 per cent, although again this was largely due to currency swings, SAS said.

The cabin factor, or capacity utilisation, fell 1.5 percentage points to 63.5 per cent. SAS, which relies heavily on high-fare business travellers, said it aimed to increase leisure travel, to use more capacity.

Jan Stenberg: 'not at all satisfied' with cost-cutting effort AP

Océ upbeat after Nixdorf printers buy

By Gordon Cramb in Amsterdam

Océ-van der Grinten, the Dutch reprographics group, expects sales to reach Fl 5bn ($2.65bn) this year – a rise of 19.8 per cent – and is looking for even stronger growth in earnings.

Mr Harry Pennings, chairman, made the forecast yesterday in detailing the company's performance for the year to November, when net profits were up 56.5 per cent to Fl 169.5m.

Turnover, which was 42.3 per cent ahead at Fl 4.17bn, was swelled by the Fl 889m acquisition of the printer division of Germany's Siemens Nixdorf, included from April.

The purchase, Océ's biggest, gave the company "the critical mass needed to accelerate the build-up of its position in the medium and high-volume segments of the market and to consolidate its position in the very-high volume segments".

Although the newly acquired unit would produce lower profit margins than the group's main copiers business, it also operated on lower costs.

In addition, Mr Pennings said, the group would receive business from customers placing printer orders at the same time as those for other Océ products.

"The sectors are converging to an extent. Increasingly, hardware suppliers are being asked to provide total solutions," he said. These would often take the form of a combined copier and printer function which would be contained in a machine it was to start shipping this year.

For the fourth quarter, net profits jumped 68 per cent to Fl 62m, on sales 50 per cent higher at Fl 1.27bn.

Over the year, excluding the effects of both the takeover and positive exchange rate, growth in revenues was 15 per cent.

From net earnings of Fl 9.06, compared with Fl 6.64 a year earlier, Océ is paying a dividend of Fl 3, against Fl 2.50. The company said it was considering a one-third payout ratio to leave enough for investment. Its shares dipped 70 cents to close in Amsterdam at Fl 240.30.

Gazprom in move to defend ADR price

By John Thornhill in Moscow

Gazprom is pressing a foreign investment group to liquidate a fund created specifically to trade in the Russian gas monopoly's domestic shares, in an attempt to defend the premium price of its recently-issued American Depositary Receipts.

The company said yesterday that Mr Rem Vyakhirev, Gazprom chairman, had written to the Regent Group, saying its fund contravened Russian laws restricting foreign ownership of strategic assets.

The company said yesterday that although it had earlier met with Regent, it had not approved the fund's plans. Gazprom has the right to refuse registration of newly-acquired domestic shares.

The Hong Kong-based Regent Group, one of the biggest portfolio investors in Russia, established the Regent Gaz Investment Company to exploit the theoretical arbitrage possibilities between Gazprom's domestic shares and its ADRs, issued last October at a 400 per cent premium.

But the scheme has caused much uncertainty. Over the past month, Gazprom's ADRs have fallen 19 per cent to $17.70, while its domestic shares have risen 27 per cent to $0.48.

EUROPEAN NEWS DIGEST

Private sale likely for Thomson-CSF

Mr Alian Juppé, the French prime minister, is expected to announce this week that he will again try to privatise the Thomson-CSF defence electronics company in a private trade sale, rather than the public flotation which the management of the state company had sought. The first attempt at privatising Thomson-CSF, together with the Thomson Multimedia consumer electronics business, was aborted last December after the official privatisation commission decided against the government's preference of the Lagardère group over Alcatel as the buyer.

Having quickly decided to go ahead with privatising Thomson-CSF separately, Mr Juppé has since taken weeks to decide on the manner of the sale. After holding talks last week with the heads of Thomson-CSF, Lagardère and Alcatel, Mr Juppé was yesterday said to be on the verge of launching another trade sale, as sought by the two industrial contenders for the state company – Lagardère and Alcatel. *David Buchan, Paris*

Caspian eyes Ukraine market

Caspian, a New York-based asset management group specialising in emerging markets, is poised to launch an investment trust dedicated to the infant equities market in Ukraine. Mr James Churn, managing director, yesterday said Caspian hoped to raise $25m-$50m from institutional investors in time for a spring launch.

The Ukrainian market, with a capitalisation estimated at $10bn-15bn, has attracted growing investor interest in the wake of recent economic stability. Caspian joins Regent Pacific, a Hong Kong-based fund manager, in targeting Ukrainian equities even before the country completes its mass privatisation programme.

Analysts estimate 80 per cent of national assets remain state-owned, and the development of the equities market still depends on the government's commitment to privatisation. *Matthew Kaminski, Kiev*

Akbank posts 43% advance

Akbank, Turkey's biggest private-sector commercial bank, yesterday announced pre-tax profits of $669.2m, up 43 per cent. Analysts said the bank's results came largely from its portfolio of high-yielding Treasury bills, estimated at about 30 per cent of its $4.36bn balance sheet. *John Barham, Ankara*

Telefónica sell-off finds an eager home market

The enthusiastic reception within Spain for the privatisation issue points the way for the future

The concept of people's capitalism has struck root south of the Pyrenees, if yesterday's sale of the Spanish state's remaining 21 per cent equity in Telefónica is anything to go by.

The success of the sale, the first market privatisation of a large state-controlled company, also points the way ahead for further large disposals of state equity in Spain. The chief lesson from the telecoms sale is that the structure of future offers should be weighted towards Spanish investors.

Seppa, the finance ministry's portfolio company that owned the stock in Telefónica, took a gamble when it routed the bulk of the disposal towards the domestic market and, in particular, towards small Spanish savers.

When the state sold 10 per cent of Telefónica in October 1995, 49 per cent of the disposal was offered to foreign institutions; this time, the international funds were offered only 32 per cent.

In the event, the risk has paid off handsomely for the retail tranche, which was about seven times oversubscribed.

Yesterday's gamble has now become today's certain bet. "What Telefónica has done is to set a trend," said Mr Juan Bastos, chief executive of Madrid broking house Ibersecurities. "Domestic-led placements are going to become the norm."

With more than 1m individual equity holders, Telefónica is the first massively-owned stock to be traded on Madrid's Bolsa. One in five household heads in Spain reportedly put in bids for the telecoms company during its privatisation, and the operator now has five times more shareholders than any other Bolsa stock.

The chief lesson from the telecoms sale is that the structure of future offers should be weighted towards Spanish investors

The people's capitalism torch is now likely to be taken up by Endesa, the large electricity power group which is due to tap the markets towards the end of this year. After the Telefónica experience, everything suggests that Spain's small savers will dominate the Endesa offer.

The state owns 66 per cent of the Endesa group, the largest domestic generator and distributor, and it plans to reduce its equity to below 50 per cent. The size of this offer could rival that of Telefónica, as the state's stake is worth some Pta1,757bn ($12.3bn) at current market prices.

The trend towards domestically-weighted offers is also expected to be in force for the disposal of the state's remaining 10 per cent in Repsol, the oil, gas and chemical conglomerate, valued at about Pta176bn, which is scheduled for April.

The Telefónica privatisation has opened the door for equity investment to a growing pile of domestic savings which, at a time of falling interest rates and lowered public debt issues, was seeking alternatives to the fixed-income instruments that have traditionally absorbed the surplus cash of Spanish households.

These savings have, moreover, been directed towards the equity market by the centre-right government which last summer published guidelines that treat Bolsa earnings as taxable income and subject to the top marginal rate of 56 per cent.

Under the new rulings, tax is abolished on the first Pta200,000 earned in a fiscal year from the market, and there is a single 20 per cent tax on subsequent earnings.

The government set the stage for people's capitalism – with the Telefónica privatisation it has run up the curtain.

Tom Burns

COMPANIES AND FINANCE: ASIA-PACIfIC

Woolworths up 8.6% despite sector weakness

By Nikki Tait in Sydney

Woolworths, one of Australia's two big retail groups, shrugged off a sluggish retail market to report an 8.6 per cent rise in interim profits after tax to A$147.6m (US$113.1m).

The company was also optimistic about the current trading period. Sales in January had been "quite strong", and although February was "a little softer in relative terms", it showed an improvement on the previous year.

However, the group said the next couple of months – after the Australian summer holiday period – would be critical. Mr Reg Clairs, managing director, stressed that the biggest challenge would be cost-containment.

The first-half result was scored on sales up 8.61 per cent, at A$8.21bn. Earnings before interest and tax rose more strongly to A$256.7m, against A$230.4m. Interest charges were almost 50 per cent higher at A$23m, compared with A$15.6m.

Woolworths – which has no connection with the US chain with the same name – said its total trading area increased by 5.85 per cent, with the number of outlets increasing to 1,080. On a "same-store" basis, first-half sales increased by 3.77 per cent.

In the core supermarkets division, sales rose from A$6.42bn to A$6.97bn, with earnings before interest and tax (EBIT) increasing from A$217m to A$234m. This represented a decline in the ratio of sales/EBIT ratio, from 3.39 per cent to 3.36 per cent.

The group blamed the fall on competition, but said profitability in the sector had "stabilised".

Woolworths is the largest retailer of branded packaged groceries in Australia, with a market share is 34.3 per cent, compared with rival Coles Myer's 26.3 per cent.

Woolworths also revealed plans to expand its wholesaling operations through the Australian Independent Wholesalers business which it acquired a part of last year's takeover of Cannons Foodstore group.

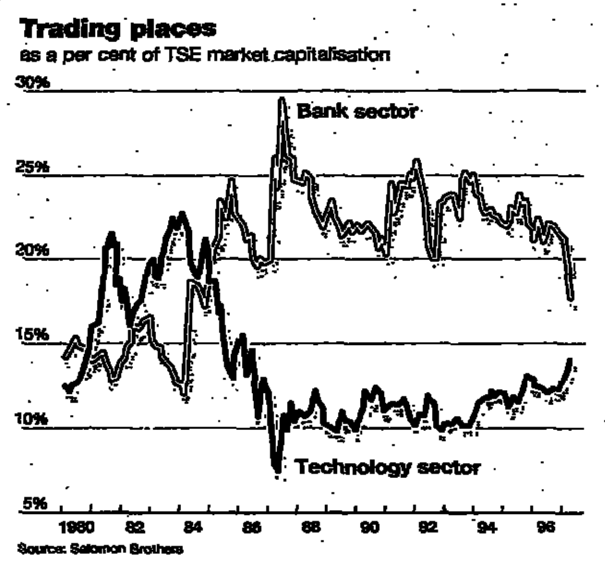
● Arnotts, the Australian biscuits and snacks group 70 per cent-owned by Campbell Soup of the US, yesterday began to reduce staffing in an attempt to deal with an extortion threat which has seen its products removed from supermarkets in eastern Australia.

The company said that it had reduced overtime at production plants across the country.

An extortionist has threatened to distribute packages of poisoned Arnotts' biscuits unless police officers take lie detector tests over evidence given in the trial of Mr Ronald Thomas, who was convicted of the murder of a Sydney bookmaker and his girlfriend in 1991.

Winds of change force Japan 'convoy' to scatter

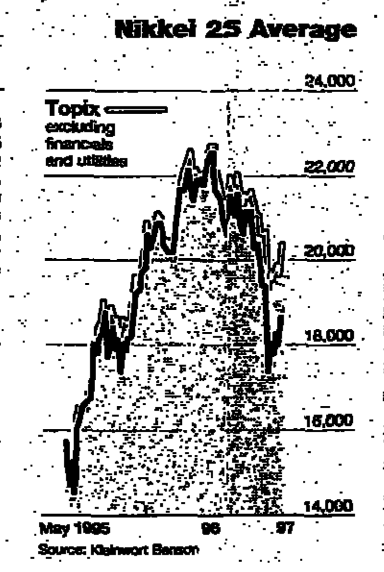
Share prices between strong and weak sectors, as well as within those sectors, have stared to diverge sharply



Performance
July 3, '95 – February 14, '97
(Per cent change)

Transport equipment	72.1
Pharmaceuticals	51.8
Electronics	43.5
Machinery	38.2
Other finance	35.8
Other manufacturers	34.9
Service	30.9
Property	30.5
Nikkei 225	29.2
Chemicals	28.6
Retail	25.3
Telecoms	18.1
Textiles	17.9
Steel	14.7
Metal products	12.7
Land transport	10.1
Mining	7.7
Securities	4.9
Oil	-9.0
Air transport	-10.8
Construction	-11.2
Banks	-12.4
Utilities	-12.9

Source: Salomon Brothers



Until recently, the distinction between Japan's corporate winners and losers was blurred by the "convoy" system, in which strong companies shepherded weak ones in the interests of collective strength.

The stock market's partial recovery since the turn of the year shows that the long talked-of breakdown in the convoy system is for real. Share prices between strong and weak sectors, as well as within sectors, are diverging sharply, rather than rising or falling within predictable bands, as they have done for much of the past two decades.

This phenomenon reveals much about how Japanese industry is changing. Every quoted company once benefited from an implicit guarantee that it would be bailed out by either a corporate relative, its main bank or the government. For example, Itoman, the trading group, which went bust in 1993, merged with an unquoted trader, Sumikin Bussan, and refloated on the over-the-counter market later that year.

But potential saviours, often facing greater competition, now need to concentrate on improving return on equity, rather than fostering relationships. Meanwhile, the government is withdrawing protection where this does not pose systemic risk.

A signal of this new toughness was the finance ministry's decision last November to order the closure of Hanwa Bank, a small regional institution – the first enforced shut-down in more than 50 years. Taking its cue from the ministry, Sakura Bank bluntly refused early this month to forgive loans to Apollo Leasing, a troubled financial group, which continues to trade.

This new readiness to let the insolvent sink or swim has led investors to flee troubled companies, on the assumption – not always correct – that nobody will come to the rescue. However, when the share price of Nippon Credit Bank collapsed recently, the government announced that, unlike Hanwa, NCB was too important to be allowed to fail.

But banks would be the prime losers in a new wave of corporate bankruptcies – one reason why the sector has fallen faster than the market. More revealing still, a sharper than usual difference has emerged over the past three months between the share price performance of well-capitalised Bank of Tokyo-Mitsubishi and laggards like NCB or Hokkaido Takushoku Bank.

In addition, investors have realised that the domestic economy is set for a long period of slower growth than in the late 1980s – a conclusion crystallised by a tight 1997 government budget.

Exporters' shares started to outperform those of domestically-based sectors when the yen began its 35 per cent fall from its record high against the dollar in April 1995, and the gap has widened since the turn of the year.

Shares of precision equipment makers, and the stronger car and electronics companies, have risen to post-war highs, while share prices in domestically orientated sectors, such as construction, steel and paper, have languished.

Even within the top sectors, there are clear distinctions. The share prices of Toyota and Honda, for example, have outperformed more domestically-dependent Mitsubishi Motors. Similarly, Canon, the multinational office equipment manufacturer, has outperformed rival Ricoh.

International companies are reaping the benefits of a decade of restructuring forced on them by the yen's strength from the 1985 Plaza Accord until late 1995.

But many domestically based companies, especially banks, have only just started to undergo the same process, as domestic markets gradually open up to competition.

Deregulation of domestic markets is happening piecemeal, with the exception of prime minister Mr Ryutaro Hashimoto's "big bang" plan to make the Tokyo financial markets as efficient as London or New York by 2001 – a negative for the shares of banks and stockbrokers.

In other sectors, deregulation, or the prospect of it, has created both losers and winners. Utilities' share prices have fallen in response to government pressure to cut prices. By contrast, nonferrous metals companies – heavy users of electricity – have risen for the same reason.

At this early stage in Japan's deregulation process, losers predominate. Securities companies' share prices have been hit by a commission-cutting war in OTC stocks, triggered by the imminence of official deregulation. Airlines have been knocked by the transport ministry's consent to the launch of three new domestic carriers; and telecommunications are suffering from the advance of cut-price overseas calls, and the break-up of Nippon Telegraph and Telephone.

Meanwhile, deregulation of asset allocation guidelines has allowed institutional investors to seek returns more aggressively.

The moral for investors is that the traditional strategy of buying underperformers at the bottom of the market is less safe. A flight to quality is starting to replace the convoy mentality. As a result, the Tokyo stock market more accurately reflects changes in the real economy than it has for many years.

William Dawkins

Reliance appoints accounts adviser

By Tony Tassell in Bombay

Reliance Industries, the Indian petrochemicals to textiles group, has signalled a shift towards greater disclosure of its accounts as part of its plans to list its securities in the US.

The company, which is controlled by the Ambani family, has appointed Deloitte Touche Tohmatsu International to advise it on adopting best international practice on accounting standards.

Reliance said it was planning to list its securities on the US market. This would require it to file accounts with the Securities and Exchange Commission, the US market regulator. This would in turn involve the adoption of the US Generally Accepted Accounting Principles (GAAP) standard, including the consolidation of accounts and quarterly reporting.

Analysts said the appointment of DTTI also represented a step by Reliance towards boosting international investor confidence in the company after a series of controversies over the past few years.

They added that the move reflected increasing pressure on Indian companies to become more transparent. Indian companies have been criticised in the past for the levels of disclosure in and reliability of their accounts.

Mr V. V. Sivakumar, head of research with brokers Peregrine India, said the DTTI appointment was a positive step by Reliance, but warned that any US listing of Reliance securities or its adoption of GAAP standards was likely only in the long term. He also said Reliance had no plans to make an issue of fresh equity on the US market.

The US listing would be sought for its bonds and its existing Global Depositary Receipts which are listed in other international markets, he said.

COMPANIES AND FINANCE: ASIA-PACIFIC

Bangkok Land falls to third-term loss

By Ted Bardacke in Bangkok

Bangkok Land, one of Thailand's largest property and condominium developers, said yesterday it fell into a deficit of Bt55.7m ($2.13m) in the third quarter of 1996, after a profit of Bt129m in the same period *last year.*

Analysts said the loss was unlikely to hinder the company's ability to meet an interest payment, due in March, on the company's SFr400m convertible eurobond, as the company was beginning to post positive cash flow.

The deficit for the first nine months of *fiscal 1996 totalled* Bt22.9m, compared with a gain of Bt485.2m in the same period the year before.

Bangkok Land is due to pay about $7.5m in an annual coupon payment to bondholders on March 31. Concerns *about* Thai property companies' ability to meet interest payments were heightened after Somprasong Land – amid a glut in the residential property sector – became the first Thai company to *default* on a eurobond two weeks ago.

As the price of Bangkok Land's eurobond has fallen – it currently offers a yield-to-put of more than 40 per cent – the company has bought up much of the outstanding paper to avoid having to redeem the paper in full when a put option comes into effect in March 1999.

Analysts said the loss was largely attributable to the company's decision to halt temporarily sales of its huge land bank, which had been propelling profits in past years when the company routinely saw negative cash flow from operations.

In the third quarter of 1996, however, Bangkok Land had positive cash flow of about Bt100m, according to Mr Neil Semple, an analyst with brokers HG Asia in Bangkok. Inventory fell about Bt300m, while total revenues were over Bt900m.

This cash flow, along with the company's large landbank and the commitment it has made to the Thai government to build a sports complex for the 1998 Asian Games in Bangkok, meant the company was likely to have the cash available to make the interest payment, he said.

Daiei to buy 16 outlets from Yaohan

Kazuo Wada: Yaohan chairman said the Y33bn deal would allow the company to rationalise its Japanese operations

Reuter

By Gwen Robinson in Tokyo

Daiei, Japan's largest retail chain operator, will purchase 16 supermarkets operated by Yaohan Japan, the *troubled retailing* empire, the two companies announced yesterday.

Daiei will pay Y33bn ($266m) for the supermarkets – nearly one-third of Yaohan's outlets – in the central region of Shizuoka. They will be operated by Seifu, an unlisted subsidiary of Daiei which runs small supermarkets nationwide.

Yaohan last month announced *plans* to reduce its gross assets by one-third, to Y120bn, over the next two years, to reduce debts and fund further expansion of its Chinese operations.

The Shanghai-based retailer had nearly Y180bn in unconsolidated assets in March 1996, and estimated net assets of Y50bn.

Under its two-year restructuring plan, Yaohan will reduce *its interest-bearing* debts from Y101bn to Y60bn, said Mr Kazuo Wada, chairman.

The proceeds of the sale will be used in part to redeem nearly Y10bn of corporate bonds that are due to mature in May.

The sale would also help Yaohan *to rationalise its* Japanese operations, Mr Wada said. "With this basic *agreement, the prospects for* our planned reduction of total assets have brightened considerably," he added.

Mr Wada said he had asked Daiei in late January to buy part of the company's supermarket chain.

However, the impetus for the deal came from Tokai *Bank, the main bank for* both companies, according to retail industry sources.

Both Daiei and Yaohan Japan have been struggling to reduce large debt burdens.

For Daiei, Yaohan's central Japan outlets are attractive. Although it has outlets in most parts of Japan, it has not yet penetrated Yaohan's base in the Shizuoka region, east of Tokyo.

The 16 supermarkets recorded combined sales of nearly Y70bn in the year to *last March. However,* analysts questioned Daiei's move, in view of its financial difficulties.

Daiei in October announced a 49.1 per cent plunge in first-half earnings amid continued sluggish household spending. Unconsolidated recurring profit fell to Y6.12bn – the first year-on-year fall in three years.

Sales during the period fell *for the second consecutive* year, declining 1.2 per cent to Y1,243.6bn.

The company's poor performance forced it to lower full-year earnings forecasts.

For the year to March, Daiei has forecast a 48 per cent drop in unconsolidated recurring profit to Y13bn. *Annual* sales, however, are expected to rise 0.7 per cent to Y2,520bn.

Citibank poised to offer services in yuan

By James Harding in Shanghai

Citibank yesterday moved its Chinese head office to Pudong, marking the start of the exodus of foreign financial institutions from old Shanghai to the former wasteland in the east of the city that is destined to become China's Wall Street.

The relocation was a condition of winning one of the first licenses granted to foreign banks to offer services in Chinese yuan.

However, Citibank said it *remained unclear about the* conditions governing foreign banks' activities in local currency, and was awaiting clarification from the People's Bank of China, the central bank.

The PBOC is due to publish detailed regulations for foreign banks next month, which will enable Citibank to open for business in April.

Mr John Beeman, Citibank country corporate officer for China, did not give details of *the restrictions expected* to be placed on foreign banks, but said: "We expect the regulations to be similar to those for local banks, but with some extra limitations."

Nevertheless, he forecast that the local currency business would be profitable almost immediately, although limited in scale.

"On profitability, it depends on how you do the accounting. But I would *expect it to be profitable* in terms of operating income almost from the beginning," he said. "On the scale, our expectation at least for this year is that it will probably be relatively modest," he added.

One concern among the eight foreign banks granted licenses to handle Chinese yuan business is that their client base will be restricted not simply to foreign ventures in Shanghai, but in *particular to those foreign* businesses with involvement in Pudong.

Mr Beeman said the client base would be clarified when the PBOC issued a definitive set of regulations, but added that "our interpretation is: do business with any business registered in Shanghai, not just limited to Pudong."

Initial regulations issued by the PBOC in January limited foreign banks' Chinese yuan business to 35 per cent *of their foreign currency* liabilities.

The other banks granted licenses for yuan business are Hong Kong Shanghai Banking Corporation, Dai-ichi Kangyo Bank, Sanwa Bank, Standard Chartered, Industrial Bank of Japan, Tokyo-Mitsubishi Bank and International Bank of Paris and Shanghai.

ASIA-PACIFIC NEWS DIGEST

Woodside raises project's reserves

Woodside Petroleum, the Australian oil and gas company which operates the North-West Shelf project, yesterday announced a sharp increase in reserves at the project off Western Australia, sending its shares 19 cents higher to A$9.31. Woodside said last year's exploration programme had led it to increase the figure for total proved raw gas ultimately recoverable from the project by 60 per cent, to 24,400bn cubic feet, compared with 15,200bn cu ft a year ago. Probable, including proved, gas recovery is increased from 18,400bn cu ft to 27,400bn cu ft.

Proved ultimate recovery of condensate goes up by 122m barrels to 690m barrels, while probable (including proved) recovery increases by 165m barrels to 894m barrels. Much of the rise is attributed to the results of drilling on the Perseus gas field, discovered two years ago.

Other participants in the NWS project are Broken Hill Proprietary of Australia, *British Petroleum, Chevron* of the US, Royal Dutch/Shell and a joint venture between Japan's Mitsubishi and Mitsui groups. *Nikki Tait, Sydney*

Reinsurance Australia climbs

Reinsurance Australia, the listed reinsurance company in Sydney established four years ago, yesterday reported an after-tax profit of A$66.6m (US$51m) in the year to end-December, up from A$45.3m in the same period a year earlier.

Earnings per share were 30 per cent higher at 44 cents. Net premium revenue was A$452.5m, up from A$313.7m, and underwriting profits totalled A$56.9m, improving from A$30.2m. Investment revenues were 19 per cent higher at A$48m. *Nikki Tait*

Yuasa in Taiwan venture

Delta Electronics, the Taiwan electronics company, has signed a contract with Yuasa of Japan, one of the world's largest manufacturers of automotive batteries, to invest a combined T$1.3bn (US$47m) in a battery plant in Taiwan.

The plant, to be owned 45 per cent each by Delta and Yuasa and 10 per cent by company employees, will produce 10m nickel-metal hydride batteries a month when it reaches full capacity in 1999, Delta said. This would make the joint venture one of the world's four largest battery producers. *Laura Tyson, Taipei*

PNB plans $125m issue

Philippine National Bank, the country's second largest by assets, said yesterday it would issue $125m of floating rate certificates of deposit. The FRCDs will have a maturity of three years, with a coupon of 0.65 percentage points above the *three-month US dollar Libor* rate.

HSBC Markets, the treasury and capital markets division of Hongkong Bank, will lead, manage and *arrange the issue from its Hong Kong office. The move* represents the first time a Philippine bank has used an overseas branch for such an issue.

For its first year as a privatised bank, PNB disappointed expectations last month with a 17 per cent drop in net income from 2.06bn pesos to 1.71bn pesos ($65m). *Justin Marozzi, Manila*

Comments and press releases about international companies coverage can be sent by e-mail to international.companies@ft.com

Outcome of battle for Clyde Petroleum expected to be close, as investor purchases 1% at 120p

Gulf enters final day of bid with 41%

By Jane Martinson

Gulf Canada Resources faces the the final day of its £494m ($800m) hostile takeover bid for UK oil independent Clyde Petroleum with nearly 41 per cent of its target's shares in the bag.

The final tally will be declared after 1pm today.

Most analysts thought acceptances from holders of 10.98 per cent of the shares had tipped the scales in the Canadian oil and gas group's favour. Gulf had already bought 29.9 per cent of Clyde.

One analyst said: "My sense is that the chances of Clyde remaining independent are quite slim."

However, the bid is still expected to be close. One investor was understood to have bought 4m shares, or 1 per cent, of Clyde at 120p, the offer price, yesterday.

With Gulf unable to increase its stake above 30 per cent under takeover rules, analysts and advisers speculated that the buyer was against the bid.

It is also strongly believed in the market that Schroders, which owns almost 20 per cent of Clyde, supports the Clyde management.

Clyde shares eased 1p to 116½p with 4.5m traded yesterday. It has hovered below the 120p offer price for the past week.

Industry observers thought the outcome would rest on the decision of Capital Group of the US, which holds 9.8 per cent of Clyde.

One industry executive said he expected Capital to sell because the fund has large stakes in other exploration and production companies and is likely to be concerned about the impact of the bid failing on share prices.

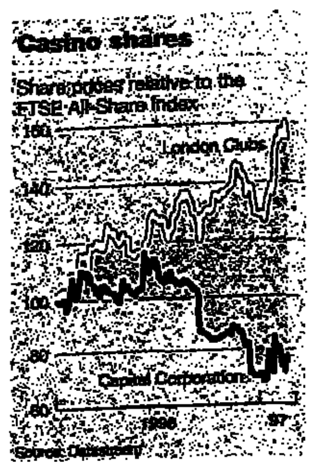
Capital, which made its decision over the weekend, refused to comment yesterday.

Norwich Union was thought to be one of the shareholders which had sent in its acceptances. The institution has been overweight in the sector since the late 1980s, when it bought at the height of a bull run.

Having recently sold shares in Enterprise Oil, some analysts suggested that it would be keen to sell its 8 per cent stake in Clyde as a way of reducing its exposure to the sector.

LEX COMMENT

UK casinos



As gambles go, the odds on London Clubs' hostile £178m bid for its smaller rival Capital Corporation look pretty good. While the timing of the offer is opportunistic – one look at the two casino companies' diverging share prices is proof of that – it makes industrial sense too. Adding Capital's two casinos to the seven it already owns would give London Clubs 60 per cent of the city's top-end casino business. That amounts to a dominant share in a market that, though growing only slowly, is profitable, highly cash generative and open to only limited competition.

A larger network of clubs would allow the group to amass better information on the small clutch of all-important, high-rolling customers. And cost savings could probably add £3m, or a quarter, to Capital's estimated profits for 1997.

Given Capital's poor record – its profits have fallen every year since its 1993 flotation – the bid at 22 times forecast earnings for 1997-98 looks positively generous. But London Clubs is offering its own equally highly-rated shares, which have been driven higher, ironically, by deals it has recently concluded beyond London – in Las Vegas and Bahrain. And casino operators are currently trading on phenomenal ratings as investors expect benefits from gaming deregulation.

There is scope therefore, either for London Clubs to raise its offer or for Ladbroke, which wants to expand its casino operations, to counter.

Shandwick directors 'ready to defect'

By Tim Burt

Shandwick International, one of the world's largest public relations group, is today expected to announce that half of the board at its London-based financial consultancy are defecting to set up a rival company.

The executives quitting Shandwick Consultants, one of the group's most profitable subsidiaries, are thought to include directors handling public relations for Halifax building society, venture capitalists 3i and British Gas.

Four board directors, and one assistant director are leaving. Mr Chris Matthews, chief executive, is among them.

The others are Mr John Olsen, Ms Rachel Hirst, Nr Nick Denton and assistant director Mr James Longfield.

Their departure will leave just four board directors in place – Mr John Reynolds, Ms Gillian Pattison, Mr James Poole and Mr Neil Huband.

The Shandwick walk-out was yesterday said to have caused consternation at the group's City offices, which employ more than 90 people and boasts about 100 corporate clients – including FT-SE 100 companies TI Group and Railtrack. Its fee income exceeds £6m a year.

Profit-taking hits Centrica shares

By Robert Corzine and Joel Kibazo

The share price of Centrica, the former supply and trading arm of British Gas, slid sharply in heavy trading on its stock market debut yesterday, shedding 10¼p to 65¼p, making it the worst performer in the FTSE 100.

Profit-taking after a week of steady gains by Centrica in the "grey market" was one reason for the sell-off. But dealers said the stock suffered from concerns about competitiveness in the UK domestic gas market, being opened to competition.

Specialists also pointed to selling by income funds, as Centrica shares will not pay a dividend.

BG plc centrica

The company said the weakness of the shares had been "pretty much what we expected".

There had been some concern within Centrica last week that the sharp run-up of the shares on the grey market would tempt the income funds to sell.

Volume in Centrica was 54m shares, by far the most heavily traded FTSE 100 stock of the day. Turnover in BG plc, which includes the pipeline operator and British Gas's international exploration and production assets, was 19m shares, making it the second most active stock of the day. BG plc closed at 174¼p, up 2¼p against Friday's closing price in the grey market.

Hedge funds were reported to be active in Centrica shares yesterday. Ms Gunde Royle, energy analyst at Morgan Stanley in London, said it was the first time that hedge funds had been so active in a utility issue. Another analyst said hedge funds were attracted by the disparity between the relatively weak underlying gas commodity price and the relatively strong Centrica price. A 1p change in the underlying gas price can have a 10p a share impact on Centrica.

A realignment of institutional holdings in the two companies is expected to continue for some days.

Brokers SBC Warburg yesterday noted that US investors have until tomorrow to decide whether to accept Centrica shares – which will not be available as American Depository Receipts – or whether they want their holdings liquidated.

US shareholders represent more than 4 per cent of the shares in the company. "Until the US issue is clarified the shares are likely to remain volatile," said Mr Matthew Warburton, gas analyst at Warburg.

Low & Bonar slips after Belgian integration costs

By Michael Lindemann

The £1.7m ($2.75m) cost of integrating two Belgium subsidiaries offset gains made through higher margins at Low & Bonar, the international packaging and plastics group.

Full year pre-tax profits in the year to November 30 slipped slightly from £52.4m to £52.3m. Excluding exceptionals, pre-tax profits rose 3 per cent to £54m.

Sales fell 2 per cent to £420.4m (£431m), which Mr Jim Heilig, chief executive, blamed on the effects of passing on to customers an average 8 per cent fall in the cost of raw materials.

L&B's shares rose 26½p to 424½p as analysts expressed relief that the results were in line with revised forecasts following a profits warning last October. The warning was prompted by poor results at the group's silagewrap business in the US.

The silagewrap business, which analysts estimate has sales of about £25m, saw profits fall by £3m.

Mr Heilig said this business had gone from being a "high margin niche business to a commodity business where margins had fallen from the mid-teens to mid-single digits".

However, he said Low & Bonar had otherwise managed to raise margins from 13.5 per cent to 13.4 per cent.

Mr Heilig said the group was working closely with Kelloggs, the cereals group, to see if the two companies could establish the same close relationship they have in the UK at three European plants. It expected Kelloggs to come to a decision by late summer.

He added that Low & Bonar would be looking to expand its packaging and polypropylene activities and also to extend the geographical reach of its plastics businesses.

Not such a sterling performance in prospect

Philip Coggan suggests that currency influences will have a prominent part to play in the UK corporate results season

The UK stock market may be setting all-time highs but there have been some worrying omens ahead of the results season, which gets into its stride at the end of the month.

A number of companies have warned that profits will be lower than expected, particularly because of a stronger pound. Sterling has been reaching its highest levels since it left the exchange rate mechanism in September 1992. Last week Reuters, the information group, Allied Domecq, the wines and spirits group, Willis Corroon, the insurance broker, and Eurotherm, the electronics company, warned of the pound's negative impact on profits.

A rising currency has two adverse effects: exporters are forced either to raise prices and lose volume, or suffer erosion of their margins; and the sterling value of the earnings of overseas subsidiaries is reduced: the "translation effect".

The UK's long history as a trading island, and the willingness of leading companies to make overseas acquisitions, means that almost half of quoted corporate profits come from overseas.

Accordingly Mr Robert Buckland, UK strategist at HSBC James Capel says: "We have shaded 3-4 per cent off our earnings estimates for 1997, largely because of sterling, and we are now expecting 7 per cent growth in 1997."

Most brokers have been edging down their profits' estimates in recent weeks. Mr Corey Miller, equity strategist at Credit Lyonnais Laing, says that "of the companies we follow, just 13 per cent are seeing earnings upgrades, while 47 per cent have seen downgrades".

The pound's advance against the dollar should not be exaggerated, according to Mr Richard Jeffrey, group economist at Charterhouse. The pound averaged $1.58 in 1995 and $1.56 last year; to date in 1996 it has averaged $1.65.

The main problem area is likely to be Europe, where exporters have to deal with sluggish economic growth and the stronger pound.

The movements of the foreign exchange markets, however, can sometimes be a handy excuse for managements under pressure. "There has been a lot of fuss about sterling, but at some companies it has really been the underlying business that has caused the problems," says Mr Mark Tinker, UK strategist at UBS.

There are difficulties at home as well as abroad. While the economy is growing, the pace is far from uniform. UK manufacturing output was up just 1.4 per cent year-on-year in December.

Certain sectors, such as food retailing, remain fiercely competitive and many businesses have little in the way of pricing power.

This creates particular problems for managements used to the heady days of the 1980s, when a combination of inflation and rapid economic growth meant that revenues normally achieved double-digit percentage growth each year.

In the 1990s boom, corporate success has depended more on the ability of managements to squeeze costs. The most obvious area of attack has been the labour market and a combination of low wage rises, flexible working practices and job shedding has done the trick.

But the recent sharp falls in unemployment – which dropped by 67,800 in January – and the rise in average earnings growth to an annual rate of 4.25 per cent indicate that this trend may be nearing its end.

Mr Brown says that profits are close to a cyclical high – both in terms of margins and as a percentage of gross domestic product. On one crude measure, profits growth has already peaked. Dividing the FTSE non-financial index by the price-earnings ratio gives a figure for corporate earnings. After rising steadily from early 1994, this topped out in 1996.

However, dividends are expected to grow 8 per cent this year, according to the latest Merrill Lynch/Gallup survey of fund managers, and with cover at about the long-term norm of 2, they are unlikely to be pressured for some time.

One sector which may prove to be the season's star is banks. After a long period out of favour, banks have rallied so far that they now yield less than the overall market. "In the financial sector, there is lots of scope for restructuring and margin enhancement," says Mr Brown. "We expect bank earnings to have grown by 23 per cent last year."

Good news may also be needed for the rest of the market. The FTSE non-financial index is trading on a price-earnings ratio of 18, quite a heady rating even if the consensus forecast of 9 per cent earnings growth in 1997 is to be believed – and the risk may be on the downside.

Gartmore loses Unilever mandate

By William Lewis

Gartmore, the fund management business bought last year by National Westminster Bank, has lost a £1bn ($1.62bn) mandate from Unilever's pension fund, one of the largest in the UK. The move follows the completion of an internal review of how Unilever's pension fund invests its £3.5bn assets.

The shake-up means that Mercury Asset Management and Schroders are now managing approximately £1.2bn each, and Capital International and JP Morgan are managing about £500m each of Unilever's specialist overseas equities mandates.

Following the review, a third multi-asset mandate managed by Gartmore had been dropped, Unilever said. "The primary focus of the review of the £3.5bn fund's investment management structure was to strengthen overseas equities expertise," it said.

The loss of business is a blow for NatWest, which last week announced it had brought together its fund management, life assurance and private banking operations to create a new unit called NatWest Wealth Management. It is to be headed by Mr Paul Myners, chairman of Gartmore.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Allied Carpets	6 mths to Dec 28	133.5	(110.3)	9.03	(7.29)	6.7†	(5.5)	2.5	May 12	-	-	-
CCI Φ	Yr to Dec 31 ◆	2.56	(2.13)	0.243	(0.154♠)	22.2	(15.4)	2.5	-	-	2.5	-
Hydro-Dynamic Φ	6 mths to Nov 30 §§	3.08	(5.4)	0.426	(1.03)	4	(9.8)	1.2	Apr 4	-	-	-
Low & Bonar	Yr to Nov 30	420.4	(431)	52.3♠	(52.4)	36.63	(36.01)	10.7	May 6	9.6	14.7	13.2
Regent Inns	6 mths to Jan 4	20.6	(14.4)	5.99♥	(3.51♥)	6.32†	(3.78)	1	Apr 14	0.63*	-	2.2*

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Anglo & Overseas	Yr to Dec 31	576.4	(555.6)	11	(10.4)	9.6	(9.07)	7.8‡	Apr 29	6	9.5	7.8
Framlington 1000	6 mths to Dec 31	172.6	(149.7)	0.618	(0.52)	1.37	(1.17)	-	-	-	-	2.25
Second Alliance	6 mths to Jan 31	2,381	(2,155)	4.66	(4.57)	24.26	(23.78)	15.5	Apr 4	15	-	49
TR High Income	Yr to Dec 31	139.7	(135.8)	1.89	(1.6)	7.22	(6.54)	1.85	Apr 30	1.6	6.45	6.4
Trust of Property	Yr to Dec 31	80.88	(63.2)	0.123	(0.121)	1.862	(1.839)	1.8273	Apr 11	1.7403	1.8273	1.7403

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. ΦAim stock. ◆Comparatives for 10½ months. §§Comparatives for 11 months to May 31 1996 and pro forma. *Equivalent after adjusting for scrip issue. ‡Pay-outs include foreign income dividend elements.

INTERNATIONAL CAPITAL MARKETS

D-Mark weakness hits Europe

GOVERNMENT BONDS

By Samer Iskandar and Edward Luce

European bond markets fell yesterday, with the weakness of the D-Mark against the dollar weighing on market sentiment.

Most European markets ended slightly lower, in line with German bunds. Trading was light with the US closed for a public holiday.

On the London International Financial Futures Exchange, the March bund future settled at 103.58, down 0.03, after reaching 103.39. Traders blamed the fall on the weakness of the D-Mark.

"There was little chance of a rate cut at the Bundesbank's council meeting [on Thursday]," one trader said. "But with a lower D-Mark, the probability is now close to zero."

Italian bonds also fell and continued to under-perform bunds. Liffe's March BTP future lost 0.27 to 130.67, while in the cash market the 10-year yield spread over bunds widened by 5 basis points to 176 points.

Mr Nigel Richardson, head of bond research at Yamaichi International, said an Italian "mini-budget now looks inevitable". The market's future direction, he added, would depend on the support that the Italian government could muster from other political parties.

"If politics holds in, there is enough will to achieve the Maastricht criteria," he said. As a result, he expects Italian 10-year yield spreads over bunds to tighten to around 60 basis points on a 12-month horizon.

UK gilts closed lower, after dropping on news that Germany's consumer price inflation figures for January had been revised upwards.

Economists said the markets were expecting the UK's public sector borrowing requirement figures for January to show a £3.5bn repayment after strong inflows from corporation tax. Anything higher than £3.5bn would cause gilts to rally.

The market is expecting UK retail sales figures for January – due tomorrow – to show a 0.2 per cent rise after the surprise 0.8 per cent fall in December.

"We expect the trend in retail sales to continue to fall far short of the boom spending we saw in the late 1980s" said Mr Philip Shaw, chief economist at Union Discount in London.

"However, if sales grew by more than 0.8 per cent last month and cancelled out the downturn in December, this might unsettle the markets somewhat."

Liffe's March long gilt future closed ¼ down at 113¼. In the cash market, gilts' yield spread over 10-year bunds was unchanged at 173 basis points. Yamaichi believes this spread could widen in the run-up to the general election.

"We could see a spread of 200 basis points again," said Mr Richardson. "Not all the political risk is incorporated in current levels."

French and Spanish bonds tracked bunds, but trading volumes were modest. Matif's March notional future closed at 132.26, down 0.08, while Meff's March contract on 10-year bonos settled 0.11 lower at 114.79.

Israel plans samurai deal for Y20bn

INTERNATIONAL BONDS

By Judy Dempsey in Jerusalem and Conner Middelmann in London

Israel wants to raise Y20bn in Japan's domestic bond market this month, the first time it has tapped Asian markets.

Underwriters for the issue – the equivalent of $150m – will be chosen after Mr David Brodet, the outgoing director-general of the Israeli finance ministry, visits Japan later this month.

The samurai issue – a yen bond issued in Japan by a foreign borrower – follows several successful offerings by Israel since 1995.

The government has gradually been exposing Israel to the international capital markets to locate alternative funding sources once US loan guarantees worth $10bn expire next year.

Israel launched a $250m Yankee bond – a domestic US bond issued by foreigners – in 1995. It made its debut in the eurobond market with a $200m offering late last year. The finance ministry said it would return to the Yankee market later this year for another $200m.

The country plans to borrow a total of $2.6bn this year. Some of Israel's leading companies are planning international bond offerings. Bezeq, the telecommunications group, is planning a $200m bond issue following the recent successful issue by Israel Electric, the state-owned utility company.

"That response has been very positive. We have seen how Israel Electric was oversubscribed," said Mr Ron Lubash, manager at Lehman Brothers in Tel Aviv.

Meanwhile, the eurobond market was subdued by yesterday's holiday in the US.

The city of Vienna issued DM300m of six-year bonds, priced to yield flat on German government bonds. Although the issue was aimed primarily at the European retail market, SBC Warburg, joint book-runner with Bayerische Vereinsbank, reported some demand from institutional investors in Switzerland.

The yield spread widened to 3 basis points, but an SBC official was confident it would eventually tighten to below bunds, like Vienna's six-year bonds launched last year which now trade at 10 basis points below bunds.

A £100m one-year issue for the Council of Europe also surfaced, aimed at Japanese investors attracted by the high coupon and sterling's strength, lead manager Nikko Europe said. "Our £70m issue last week for New Zealand went very well, and this is a follow-up on that," an official said.

The European Investment Bank is expected to increase its euro-denominated issue today. The E1bn deal was heavily oversubscribed at its launch at the end of last month and the market is expecting another E300m.

Turkey is preparing its first issue in Italian lire, a five-year offering of L250bn to L350bn, expected tomorrow or Thursday. "It will be the first non-Latin American emerging market bond in lire, and therefore has significant rarity value," said a syndicate official at lead manager Chase. Spread talk is about 235 to 255 basis points over BTPs.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
Kingdom of Sweden(a,l)★	80	3.145	100.35	Feb 2007	0.35	-	Nikko Europe
D-MARKS							
City of Vienna(s)	300	4.75	99.89R	Jan 2003	0.275R	flat(7½%-02)	BayerVB/SBC Warburg
STERLING							
Council of Europe(s)★	100	6.00	100.00	Dec 1998	0.50	-	Nikko Europe
AUSTRALIAN DOLLARS							
World Bank	100	6.75	101.64	Mar 2001	1.75	-	ABN Amro Hoare Govett
SOUTH AFRICAN RAND							
SBC, Jersey Branch	250	15.00	100.00R	Mar 1999	0.125R	-	SBC Warburg
BGB Finance (Ireland)	100	15.75	100.85	Mar 1998	1.00	-	Hambros Bank
CZECH KORUNA							
Crédit Local de France	1bn	10.625	100.935	Mar 1998	1.00	-	BIL/Wood Commerz
BGB Finance (Ireland)	1bn	10.50	100.00R	Mar 1998	0.15R	-	JP Morgan Securities

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. R: Fixed re-offer price; fees shown at re-offer level. ★Unlisted. a) Redeemed in yen. l) Long 1st coupon. s) Short 1st coupon.

Egyptian watchdog suspends brokers

By Mark Huband in Cairo

Egypt's stock market regulator has suspended the trading activities of four brokerage houses following an investigation into the payment of premiums on capped shares. The country's Capital Market Authority has suspended one broking house for three months and three others for 15 days.

The investigation looked into the purchase of shares in two banks – Commercial International Bank and Mibank – during late January. At that time movements in share prices were capped on the Cairo Stock Exchange. They are now permitted to fluctuate within a 5 per cent margin.

The exposure of the premium payments, and the investigation which followed, led to further calls for reform of the stock exchange.

CMA officials have strongly criticised some broking houses for having little understanding of the valuation procedure. Reforms now being planned will include electing non-brokers – in particular investment bankers and other representatives of financial institutions – to the committees which control stock market affairs.

● CIB, Egypt's largest non-public sector bank, will tomorrow launch a new broking arm as part of its further expansion. Intercapital Brokerage, in which CIB's holding is expected to be between 25-50 per cent, is expected to start trading Egyptian shares with an eight-member team of brokers drawn largely from EFG-Hermes, the established Cairo broking house.

CAPITAL MARKETS DIGEST

NZ$ contracts being considered

The New Zealand Futures and Options Exchange is looking at launching a futures contract based on the country's "trade-weighted index", which is in effect a trade-weighted exchange rate.

The TWI is calculated by the Reserve Bank of New Zealand and reflects movements in the New Zealand dollar against the currencies of the country's five leading trading partners, weighted for their trade significance. The product is aimed at banks and other traders who wish to minimise the effects of currency volatility in their portfolios.

The Chicago Mercantile Exchange recently said it was seeking regulatory approval to trade New Zealand dollar futures and options contracts, in part because of the currency's recent volatility. The CME is examining smaller currency markets as volatility in its prime European currency futures contracts declines with the approach of European monetary union.

The Auckland-based futures and options exchange claims its contract idea comes in response to demand from overseas futures funds, notably in the US, and from some domestic banks.

A final decision on whether to go ahead with the product is likely in the next two months, and, if favourable, could mean that the new contracts start trading by mid-year.

Nikki Tait, Sydney and Laurie Morse, Chicago

OLO derivatives from Belfox

Belgium's futures and options exchange, Belfox, is aiming to launch derivatives on medium-term Belgian government bonds (OLOs) in coming months. A new futures contract will be created on three-year to five-year bonds, according to Mr Jos Schmitt, president of Belfox's management committee. Demand for such a product had come from the Belgian banking sector, he said.

Separately, Mr Schmitt said the exchange's net income had risen 80 per cent last year to BFr93m, partly as a result of a 16 per cent reduction in costs. Trading volume rose to 2.6m contracts, up 22 per cent from 1995.

However, the contribution of fixed-income and currency products to net income fell from 56 per cent in 1995 to 36 per cent last year. Turnover on OLO futures, for example, was down by 23 per cent.

Reuter, Brussels

Electrolux block trade

SBC Warburg has completed a SKr1.22bn block trade in shares of Electrolux, the Swedish domestic appliance manufacturer.

The block trade, which requires the intermediary to buy shares with its own capital before selling them to investors, involved buying 2.77m Electrolux shares from Incentive, the investment vehicle of Sweden's Wallenberg family. The shares were then sold to Swedish and international institutional investors at SKr442 a share.

Samer Iskandar

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		6.750	11/06	96.4000	+0.270	7.27	7.38	7.56
Austria		5.625	01/07	100.9200	-0.020	5.50	5.62	5.96
Belgium		6.250	03/07	105.3800	-0.040	6.26	5.57	6.01
Canada *		7.000	12/06	106.2500	+0.050	6.14	6.33	6.66
Denmark		8.000	03/06	112.7000	+0.060	6.13	6.27	6.63
France	BTAN	5.500	10/01	105.0673	-	4.28	4.38	4.65
	OAT	6.500	10/06	108.7000	+0.050	5.33	5.46	5.88
Germany Bund		6.000	01/07	103.7500	+0.060	5.50	5.61	5.94
Ireland		8.000	08/06	111.5900	-0.110	6.33	6.47	6.87
Italy		7.750	11/06	104.3800	+0.020	7.12†	7.05	7.54
Japan	No 143	6.300	09/01	121.2598	-0.030	1.38	1.38	1.51
	No 182	3.000	09/05	104.2727	-0.110	2.40	2.38	2.51
Netherlands		5.750	01/07	102.8200	-	5.25	5.40	5.84
Portugal		9.500	02/06	119.4500	+0.950	6.57	6.63	6.93
Spain		7.350	03/07	104.2800	+0.020	6.65	6.64	6.94
Sweden		8.000	08/07	110.5396	-	6.57	6.75	6.87
UK Gilts		8.000	12/00	104-04	-2/32	6.75	6.77	7.27
		7.500	12/06	102-18	-3/32	7.13	7.16	7.71
		9.000	10/08	113-31	-1/32	7.21	7.24	7.80
US Treasury *		6.250	02/07	0-00	-	0.00	6.40	6.53
		6.625	02/27	0-00	-	0.00	6.70	6.78
ECU (French Govt)		7.000	04/06	108.8800	+0.060	5.72	5.87	6.25

London closing. *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

Close		Treasury Bills and Bond Yields			
Prime rate	8¼	One month	-	Two year	5.77
Broker loan rate	7	Two month	-	Three year	5.91
Fed.funds	5⅜	Three month	5.09	Five year	6.06
Fed.funds at intervention	-	Six month	5.15	10-year	6.27
		One year	5.43	30-year	6.53

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	132.34	132.36	-0.08	132.44	132.12	50,459	138,351
Jun	130.94	131.04	-0.10	131.08	130.84	717	16,797
Sep	129.24	129.34	-0.10	129.24	129.24	2	1,269

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	CALLS Mar	CALLS Apr	CALLS Jun	PUTS Mar	PUTS Apr	PUTS Jun
128	4.36	3.09	3.35	-	0.06	0.33
129	3.37	2.18	2.55	0.01	0.15	0.53
130	2.37	1.36	1.86	0.01	0.32	0.83
131	1.41	0.71	1.27	0.05	0.67	1.23
132	0.53	0.31	0.81	0.17	1.26	1.76

Est. vol. total, Calls 9,880 Puts 14,282. Previous day's open int., Calls 154,658 Puts 206,932.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	103.57	103.58	-0.03	103.67	103.39	69048	248948
Jun	102.72	102.76	-0.02	102.76	102.57	3732	24496

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	CALLS Mar	CALLS Apr	CALLS May	CALLS Jun	PUTS Mar	PUTS Apr	PUTS May	PUTS Jun
10350	0.28	0.32	0.58	0.78	0.20	1.05	1.32	1.52
10400	0.08	0.19	0.41	0.59	0.50	1.43	1.65	1.83
10450	0.02	0.11	0.28	0.43	0.94	1.85	2.02	2.17

Est. vol. total, Calls 8482 Puts 9433. Previous day's open int., Calls 232685 Puts 277868

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	130.75	130.67	-0.27	131.13	130.54	33463	121856
Jun	130.20	130.03	-0.24	130.40	129.95	2003	16323

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	CALLS Mar	CALLS Jun	PUTS Mar	PUTS Jun
13050	0.48	1.64	0.31	2.11
13100	0.23	1.39	0.56	2.38
13150	0.10	1.15	0.93	2.62

Est. vol. total, Calls 3840 Puts 3538. Previous day's open int., Calls 146895 Puts 154320

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	114.75	114.79	-0.11	114.83	114.62	40,059	66,930
Jun	-	114.85	-0.11	-	-	834	2,710

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	113-08	113-08	-0-04	113-17	113-03	30785	197383
Jun	112-23	112-25	-0-03	112-25	112-22	6717	6822

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	CALLS Mar	CALLS Apr	CALLS May	CALLS Jun	PUTS Mar	PUTS Apr	PUTS May	PUTS Jun
113	0-33	0-59	1-27	1-46	0-17	1-09	1-41	1-60
114	0-08	0-34	0-63	1-19	0-56	1-48	2-13	2-33
115	0-01	0-18	0-42	0-60	1-49	2-32	2-56	3-10

Est. vol. total, Calls 3842 Puts 2390. Previous day's open int., Calls 97881 Puts 53738

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	98.20	98.38	-0.04	98.42	98.18	1,180	6,107

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100% (Feb 14)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	113-13	113-30	+0-19	114-03	113-09	415,373	501,738
Jun	112-29	113-14	+0-19	113-19	112-25	7,910	43,683
Sep	112-23	113-01	+0-20	113-04	112-22	56	10,827

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Mar	126.05	-	-	126.15	126.03	2325	n/a
Jun	124.60	-	-	124.69	124.60	1022	n/a

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

FTSE Actuaries Govt. Securities — UK Indices

Price Indices UK Gilts	Mon Feb 17	Day's change %	Fri Feb 14	Accrued interest	xd adj. ytd
1 Up to 5 years (19)	121.55	-0.03	121.91	2.51	1.75
2 5-15 years (21)	153.41	-0.12	153.59	2.95	1.09
3 Over 15 years (6)	175.10	-0.25	175.54	3.49	2.22
4 Irredeemables (5)	202.61	-0.94	204.53	3.12	1.00
5 All stocks (51)	147.11	-0.12	147.42	2.92	1.57

	Low coupon yield Feb 17	Feb 14	Yr. ago	Medium coupon yield Feb 17	Feb 14	Yr. ago	High coupon yield Feb 17	Feb 14	Yr. ago
5 yrs	6.84	6.82	7.00	6.91	6.87	7.04	6.95	6.92	7.12
15 yrs	7.29	7.27	7.92	7.29	7.27	7.95	7.24	7.24	8.06
20 yrs	7.38	7.35	8.04	7.35	7.32	8.04	7.26	7.27	8.15
Irred.†	7.49	7.41	8.10						

Index-linked	Mon Feb 17	Day's change %	Fri Feb 14	Accrued interest	xd adj. ytd
6 Up to 5 years (2)	206.51	-0.03	206.56	2.26	0.00
7 Over 5 years (10)	200.02	-0.12	200.27	0.78	1.81
8 All stocks (12)	199.62	-0.11	199.85	0.93	1.61

	Inflation 5% Feb 17	Feb 14	Yr. ago	Inflation 10% Feb 17	Feb 14	Yr. ago
Up to 5 yrs	2.96	2.95	2.40	2.21	2.20	1.06
Over 5 yrs	3.35	3.34	3.61	3.14	3.12	3.40

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT Fixed Interest Indices

	Feb 17	Feb 14	Feb 13	Feb 12	Feb 11	Yr ago	High*	Low*
Govt. Secs. (UK)	96.30	96.45	96.56	96.54	96.34	93.47	96.56	91.59
Fixed Interest	119.92	119.66	119.43	119.63	119.44	112.29	119.92	110.74

Gilt Edged Activity Indices

	Feb 14	Feb 13	Feb 12	Feb 11	Feb 10
Gilt Edged bargains	104.7	85.2	79.7	86.1	132.8
5-day average	97.7	96.6	96.9	100.4	102.5

 * for 1996/97. Government Securities high since compilation: 127.40 (09/01/35), low 49.18 (03/01/75). Fixed Interest high since compilation: 133.87 (21/01/94), low 50.53 (03/01/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974.

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:00 pm on February 17

	Issued	Bid	Offer	Chg	Yield
U.S. DOLLAR STRAIGHTS					
Abbey Natl Treasury 6½ 03	1000	100⅜	100⅝	+⅛	6.42
ABN Amro Bank 7¼ 05	1000	102⅞	103⅛	+⅛	6.90
African Dev Bk 7⅜ 23	500	102¾	103¼	+½	7.14
Alberta Province 7⅝ 98	1000	102⅝	102¾		5.94
Asian Dev Bank 6¼ 05	750	98⅝	98¾	+¼	6.56
Austria 8½ 00	400	106¼	106½	+⅛	6.11
Baden-Wuert L-Fin 8⅛ 00	1000	105⅛	105⅜		6.16
Bancomext 7¼ 04	1000	93¼	93⅞		8.74
Bank Ned Gemeenten 7 99	1000	102¼	102⅜	+⅛	5.99
Bayer Vereinsbk 8⅛ 00	500	105⅛	105⅜	+⅛	6.16
Belgium 5½ 03	1000	95½	95¾	+⅛	6.34
British Columbia 7¾ 02	500	105⅞	106¼		6.40
British Gas 0 21	1500	16¾	17	+⅛	7.50
Canada 6⅜ 05	1500	99¼	99⅜	+¼	6.60
Cheung Kong Fin 5½ 98	500	98⅜	98½		6.56
China 6½ 04	1000	98¼	98¾	+⅛	6.93
Credit Foncier 9½ 99	300	106⅜	106⅝	+⅛	6.05
Denmark 5¾ 98	1000	100	100⅛	+⅛	5.75
East Japan Railway 6⅝ 04	600	100	100¼	+¼	6.62
EIB 6 04	500	98¼	98⅝	+⅛	6.31
Elec de France 9 98	200	103⅛	103⅜		5.90
Ex-Im Bank Japan 8 02	500	107⅛	107⅜	+⅛	6.35
Export Dev Corp 9½ 98	150	104⅝	104⅞	+⅛	5.92
Exxon Capital 0 04	1800	61¾	62⅛	+⅛	6.42
Fed Home Loan 7⅛ 99	1500	102½	102¾		6.09
Federal Natl Mort 7.40 04	1500	105⅝	105¾	+¼	6.53
Ford Motor Credit 6¼ 98	1500	100⅜	100½		5.95
General Mills 0 13	1000	27	27¼	+¼	8.25
IMI Finance 5¼ 98	650	98¾	99		5.98
Inter-Amer Dev 6⅛ 05	1000	97⅞	98	+¼	6.54
Inter-Amer Dev 7½ 05	500	105⅝	105¾	+¼	6.56
Intl Finance 5¼ 99	500	99	99¼		5.82
Italy 6 03	2000	98¼	98½	+⅛	6.43
Italy 6⅞ 23	3500	96¾	97⅛	+¼	7.28
Japan Dev Bk 8⅜ 01	500	107⅛	107⅜		6.30
Korea Elec Power 6⅜ 03	1350	97⅞	98¼	+⅛	6.88
Matsushita Elec 7¼ 02	1000	103⅞	104⅛	+⅛	6.50
Ontario 7⅜ 03	3000	104⅝	104⅞	+⅛	6.53
Ontario 7¾ 02	2000	106¼	106½	+⅛	6.44
Oster Kontrollbank 8½ 01	200	107¼	108		6.27
Portugal 5¾ 03	1000	96¾	97		6.46
Quebec Hydro 9¾ 98	150	105¼	105½		6.19
Quebec Prov 9 98	200	103	103¼	-⅛	6.16
SAS 10 99	200	106½	106⅞		6.47
SNCF 9½ 98	150	104½	104¾	-⅛	6.08
Spain 6½ 99	1500	101⅛	101⅜	+⅛	5.95
Sweden 6½ 03	2000	101⅛	101¼	+⅛	6.37
Tennessee Valley 6 00	1000	99¾	99⅞		6.17
Tennessee Valley 6⅜ 05	2000	99⅜	99½	+¼	6.58
Tokyo Elec Power 6⅛ 03	1000	99⅜	99⅝	+⅛	6.24
Toyota Motor 5⅝ 98	1500	99¾	100		5.86
United Kingdom 6¾ 01	2000	102½	102⅝	+⅛	6.08
United Kingdom 7¼ 02	3000	105¼	105⅜	+⅛	6.17
Walt Disney 6¾ 01	1300	100¼	100½	+⅛	6.40
World Bank 6⅜ 05	1500	99¾	99⅞	+¼	6.52
World Bank 8⅝ 99	1500	106⅞	107	+⅛	5.59
DEUTSCHE MARK STRAIGHTS					
Austria 6½ 24	2000	101⅝	101⅞	+¼	6.37
Baden-Wuert L-Finance 6 99	2000	105	105¼		3.82
Credit Foncier 7¼ 03	2000	110⅜	110⅝		5.20
Denmark 6⅛ 98	2000	103⅛	103¼		3.32
Depfa Finance 6⅜ 03	1500	106⅝	106⅞	+⅛	5.21
Deutsche Bk Fin 7½ 03	2000	111½	111¾		5.21
Deutsche Finance 5¼ 04	2500	103⅝	103¾	+¼	5.12
EEC 6½ 00	2800	107¼	107½		3.94
EIB 6¼ 00	1500	106⅝	106⅞		3.86
Finland 7½ 00	3000	109⅞	110		3.89
KFW Intl Finance 6¼ 03	2250	105½	105⅝		5.07
LKB Baden-Wuert 6½ 08	2250	105⅞	106		5.78
Norway 6⅛ 98	1500	103¼	103½	+⅛	3.34
Ontario 6¼ 04	1500	105⅜	105½	+⅛	5.30
Spain 7¼ 03	4000	111¾	111⅞		4.95
Volkswagen Intl Fin 7 03	1000	109¼	109½		5.23
World Bank 5⅞ 03	3000	105⅝	105¾	+⅛	4.87
World Bank 6⅛ 02	3000	107	107⅛		4.67
World Bank 7⅛ 05	3000	111½	111½		5.34
SWISS FRANC STRAIGHTS					
Asian Dev Bank 0 16	500	43	-	+½	4.65
Austria 4½ 00	1000	105¼	106½		2.31
Council Europe 4¾ 98	250	102¼	102⅞		1.95
Denmark 4¼ 99	1000	105⅛	105¼		2.21
EIB 3¼ 99	1000	103¼	103½		2.03
EIB 6¾ 04	300	116⅝	117⅛		4.16
Finland 7¼ 99	300	112¼	112½		2.40
Iceland 7⅞ 00	100	116			2.70
Inter Amer Dev 4¾ 03	600	109½	109⅝		3.11
Ontario 6¼ 03	400	116¼	116½		3.20
Quebec Hydro 5 08	100	103½	105		4.59
SNCF 7 04	450	122⅛	123	-⅛	3.59
Sweden 4¾ 03	500	109¼	109½		3.15
World Bank 0 21	700	31¾	32⅝	+⅜	4.74
World Bank 7 01	600	116¼	116⅞	-⅛	2.71
YEN STRAIGHTS					
Belgium 5 99	75000	111¼	111½		0.95
Credit Foncier 4¾ 02	75000	113⅞	114⅛	-⅛	2.04
EIB 6⅝ 00	100000	117	117¼		0.99
Ex-Im Bank Japan 4⅜ 03	105000	113⅞	114⅛	-⅛	2.11
Fed Nat Mort 2 99	100000	102⅞	103	-⅛	0.97
Inter Amer Dev 7¼ 00	30000	119⅝	119⅞	+⅛	1.06
Italy 3½ 01	300000	108⅛	108¼		1.56
Italy 5 04	200000	117⅞	118⅛	-⅛	2.46
Japan Dev Bk 5 99	100000	110⅝	110¾		0.88
Japan Dev Bk 6½ 01	120000	122	122¼	-⅛	1.50
SNCF 6¾ 00	30000	117	117¼		1.04
Spain 5¾ 02	125000	119⅝	119¾		1.70
World Bank 5¼ 02	250000	117¾	117⅞		1.81
OTHER STRAIGHTS					
EBRD 14¾ 98 R	250	99⅜	100⅛		15.04
World Bank 15 99 R	500	100⅝	100¾	-⅜	14.76
Austria 6½ 99 Fl	1000	105¾	105⅞		3.75
PTT Nederland 6½ 08 Fl	1300	108¼	108⅝	+1	5.55
Bell Canada 10⅝ 99 C$	150	113¼	113⅝	+¼	4.86
British Columbia 7¾ 03 C$	1250	110⅛	110⅜	+¼	5.90
Canada Mtg & Hsg 8¼ 99 C$	1000	108¾	109	+⅛	4.51
EIB 10⅛ 98 C$	130	106⅞	107		3.85
Elec de France 9¾ 99 C$	275	112⅛	112½		4.60
KfW Intl Fin 10 01 C$	400	116⅞	117¼	+¼	5.26
Nippon Tel Tel 10¼ 99 C$	200	113⅝	113⅞	+⅛	4.69
Ontario 8 03 C$	1500	111½	111¾	+¼	5.81
Ontario Hydro 10⅞ 99 C$	500	113	113¼		4.31
Oster Kontrollbank 10¼ 99 C$	150	112⅞	113¼		4.54
Quebec Hydro 7 04 C$	1000	104⅞	105⅛	+¼	6.25
Quebec Prov 10½ 98 C$	200	110½	110⅞	+⅛	4.25
Council Europe 9 01 Ecu	1100	116¾	117⅛		4.94
Credit Foncier 8⅜ 04 Ecu	1000	114½	115	+½	5.82
Denmark 8½ 02 Ecu	1000	115¾	116	+¼	4.97
EC 6 00 Ecu	1100	105½	105⅞	+⅛	4.35
EIB 10 01 Ecu	1150	119¼	119½	+⅛	4.54
Finland 8½ 07 Ecu	750	118⅝	119	+⅛	5.97
Italy 9¼ 11 Ecu	2500	127⅞	127⅞	+⅛	6.26
Italy 10¾ 00 Ecu	1000	118	118½		4.82
United Kingdom 9⅛ 01 Ecu	2750	116¼	116⅜	+⅛	4.80
AIDC 10 99 A$	100	106⅝	107⅛	-⅛	6.82
Comm Bk Australia 13¾ 99 A$	100	115½	116	-⅛	6.97
EIB 7¾ 99 A$	350	103⅞	104⅛	+¼	6.28
NSW Treasury Zero 0 20 A$	1000	17	17⅝	+⅛	7.74
R & I Bank 7¾ 03 A$	125	102¼	102⅝	+⅜	7.28
State Bk NSW 9 02 A$	300	107	107⅜		7.41
Sth Aust Govt Fin 9 02 A$	150	106⅞	107¼	-⅛	7.44
Unilever Australia 12 98 A$	150	105	105⅜		6.34
Western Aust Treas 7¾ 98 A$	100	101⅛	101¾		6.41
Abbey Natl Treasury 8 03 £	1000	103⅛	103¼		7.34
British Land 8⅞ 23 £	150	103	103⅜	-¼	8.77
Denmark 6¾ 98 £	800	100⅛	100⅜		6.62
Depfa Finance 7⅛ 03 £	500	98½	98¾	-¼	7.41
EIB 8 03 £	1000	104¼	104½	-⅛	7.13
Finland 7 00 £	500	100⅝	100¾	+⅛	6.79
Glaxo Wellcome 8¾ 05 £	500	107	107¼	-¼	7.62
HSBC Holdings 11.69 02 £	153	117½	117¾	+⅛	7.82
Italy 10½ 14 £	400	125⅝	125⅞	-¼	7.77
Japan Dev Bk 7 00 £	200	100⅝	100⅞	-⅛	6.79
Land Secs 9½ 07 £	200	111½	111⅞	-½	7.81
Ontario 11⅛ 01 £	100	113	113⅜	-⅛	7.25
Powergen 8⅞ 03 £	250	105⅞	106⅛	-⅛	7.63
Severn Trent 11½ 99 £	150	109⅜	109⅝		7.08
Tokyo Elec Power 11 01 £	150	113⅜	113⅝		7.25
TCNZ Fin 9¼ 02 NZ$	75	106⅜	107⅛		7.74
World Bank 9 99 NZ$	250	102½	103	-⅛	7.78
Credit Local 6 01 FFr	8000	106¼	106½		4.50
Denmark 5½ 99 FFr	7000	104⅜	104⅝		3.75
Elec de France 8¾ 22 FFr	3000	130¾	131¼	+1⅛	6.29

FLOATING RATE NOTES

	Issued	Bid	Offer	C.cpn
Abbey Natl Treasury -1/16 99	1000	99.95	100.01	5.4375
Argentaria Global Fin 0 01	700	99.66	99.75	5.5469
Bankamerica ⅛ 99	750	99.97	100.06	5.6602
Canada -¼ 99	2000	99.78	99.83	5.2539
CCCE 0 06 Ecu	200	99.69	99.89	4.0625
Commerzbk O/S Fin -⅛ 98	750	99.83	99.92	5.3750
Credit Lyonnais 1/16 00	300	98.20	98.57	5.7500
Dresdner Finance 1/16 98 DM	1000	100.00	100.05	3.1875
Fed Nat Mort -1/16 00	1000	99.83	99.89	5.3125
Finland -⅛ 99	1500	99.98	100.05	5.4375
Halifax BS 0 99	500	100.08	100.16	5.5469
IMI Bank Intl ¼ 99	500	100.44	100.55	5.7500
Italy 1/16 99	1500	100.43	100.50	5.6250
Italy ⅛ 98 Ecu	1500	100.25	100.31	4.2461
LKB Baden-Wuert Fin -⅛ 98	1000	99.93	100.00	5.4375
Lloyds Bank Perp S 0.10	600	89.94	90.44	5.8295
Malaysia 1/16 05	650	99.82	100.00	5.6875
Nova Scotia 3/16 99	500	99.98	100.08	5.6992
Ontario 0 99	2000	100.19	100.25	5.5000
Portugal 1/16 99 DM	2500	100.29	100.36	3.1875
Quebec Hydro 0 99	500	99.79	99.92	5.5938
Renfe 0 98	500	99.85	100.00	5.4375
Spain -3/16 02 DM	2000	100.10	100.16	3.1625
State Bk Victoria 0.05 99	125	100.00	100.13	5.7219
Sweden -⅛ 01	2000	100.00	100.07	5.3667
United Kingdom -⅛ 01	2000	99.89	99.91	5.3125

CONVERTIBLE BONDS

	Issued	Conv. Price	Bid	Offer	Prem.
Allied-Lyons 6¾ 08 £	200	6.04	95¼	96¼	+33.79
Fuji Intl Finance ¼ 02	210000		85¾	86⅝	
Gold Kalgoorlie 7½ 00	65	1.37	108⅛	109⅞	-12.35
Grand Metropolitan 6½ 00	710	4.37	114¼	115¼	+6.38
Hong Kong Land 4 01	410	31.05	93½	94¼	-6.04
Land Secs 6¾ 02 £	84	6.72	114	117	-2.57
Lasmo 7¾ 05 £	90	5.64	97¾	98¾	
MBL Intl Fin 3 02	2000	22	100¼	100⅞	-5.65
Mitsui Bank 2⅝ 03	200	2332.8	80⅜	82⅜	
Ogden 6 02	85				
Pennzoil 4¾ 03	500				
Sandoz Capital 2 02	750	1302.26	111¾	112½	+23.61
Sappi BVI Finance 7½ 02	250	76	94	95	
Sapporo 1⅜ 00	40000	1059.4	100¼	101¼	+17.22
Sumitomo Bank 3¼ 04	300	3608.9	87⅝	89⅛	
Sun Alliance 7¼ 08 £	155	3.9	127⅞	129	+35.89
Transatlantic Hldgs 5½ 09 £	250	5.05	96½	97½	+9.02

* No information available - previous day's price
‡ Only one market maker supplied a price

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day.
FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. Spread=Margin above six-month offered rate (three-month §above mean rate) for US dollars. C.cpn=The current coupon.
CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

UK GILTS PRICES

	Notes	Yield Int	Yield Red	Price £	+ or -	52 week High	52 week Low
Shorts" (Lives up to Five Years)							
Exch 10½pc 1997		10.40	-	100¼xd	—	107⅞	100
Treas Cnv 7pc 1997‡‡		6.97	6.15	100⅜	-1/16	101⅜	100⅝
Treas 8¾pc 1997‡‡		8.63	6.15	101⅜	—	107	101⅜
Exch 15pc 1997		14.17	6.20	105⅞	—	114⅞	102
Exch 9¾pc 1998		9.46	6.25	103	—	106	100
Treas 7¼pc 1998‡‡		7.18	6.32	101	—	109	100
Treas 15½pc '98‡‡		13.65	6.52	113	-1/16	122	113
Exch 12pc 1998		11.01	6.51	108	—	114	108
Treas 9½pc 1999‡‡		9.03	6.56	105¼	—	108⅛	97
Treas Flg Rate 1999		-	-	100	-1/16	100	99⅞
Exch 12¼pc 1999		11.04	6.60	110	-1/16	116⅛	110
Treas 10½pc 1999		9.72	6.54	108	—	111	107
Treas 6pc 1999‡‡		6.07	6.60	98	-1/16	99¼	96
Conversion 10¼pc 1999		9.42	6.68	108	-1/16	118	107
Conv 9pc 2000‡‡		8.48	6.71	106	-1/16	108	103
Treas 13pc 2000		10.96	6.76	118	-1/16	123	117
Treas 14pc 1998-1		12.84	6.44	109	—	118	109
Treas 8pc 2000‡‡		7.69	6.74	104	-⅛	104	101
Treas Flg Rate 2001		5.87	-	100	—	100	99
Treas 10pc 2001		9.01	6.83	110xd	-1/16	113⅛	100
Treas 7pc 2001 ‡‡		6.96	6.83	100⅝	-1/16	100⅞	96½
Five to Fifteen Years							
Treas 7pc 2002‡‡		6.95	6.81	100	-⅛	101	97
Treas 9¾pc 2002		8.67	6.97	112½	-1/16	113⅝	108⅞
Treas 8pc 2003‡‡		7.60	6.95	105	-1/16	105	99
Treas 10pc 2003		8.67	7.02	115	-1/16	116	11[illegible]
Treas 11½pc 2001-4		9.89	6.84	116	-⅛	121⅝	114⅞
Funding 3½pc 1999-4		4.05	5.62	86	+1/16	86¼	78¾
Conversion 9½pc 2004		8.32	7.05	114¼	-1/16	114⅝	107
Treas 6¾pc 2004‡‡		6.86	7.01	98⅛	-⅛	98	91
Conv 9½pc 2005		8.29	7.11	114	-1/16	122	108
Treas 12½pc 2003-5		9.70	7.05	128	-1/16	130	123
Treas 8½pc 2005‡‡		7.80	7.10	109	-1/16	109	101⅞
Treas 7½pc 2006‡‡		7.31	7.13	102	-⅛	103	94
Treas 7¾pc 2006‡‡		7.45	7.16	104	-1/16	107¼	98
Treas 8pc 2002-6‡‡		7.72	7.06	103	-1/16	104	97⅞
Treas 11¾pc 2003-7		9.59	7.02	122xd	-1/16	124	115¼
Treas 8½pc 2007 ‡‡		7.74	7.16	109¾	-⅛	110	101
Treas 7 1/4pc 2007‡‡		7.18	7.12	100	-⅛	101	97
Treas 9pc 2008 ‡‡		7.90	7.21	113⅞	-1/16	114	103
Treas 8pc 2009		7.55	7.26	105	-⅛	106	96
Treas 6 1/4pc 2010‡‡		6.86	7.32	90	-1/16	91	81¾
Conv 9pc Ln 2011 ‡‡		7.83	7.31	114	-1/16	115	104⅞
Over Fifteen Years							
Treas 9pc 2012‡‡		7.80	7.32	115	-1/16	116¼	104
Treas 5½pc 2008-12‡‡		6.44	7.08	85	+1/16	85	75⅞
Treas 8pc 2013‡‡		7.53	7.34	106	-⅛	107	95
Treas 7¾pc 2012-15‡‡		7.45	7.37	104	-¼	104	93
Treas 8pc 2015‡‡		7.49	7.32	106	-1/16	107⅝	95
Treas 8¾pc 2017‡‡		7.65	7.37	114¼xd	-1/16	115¼	102½
Treas 8pc 2021‡‡		7.44	7.33	107	-⅛	108	95
Undated							
Consols 4pc		7.62	-	52	-⅛	54	46⅞
War Loan 3½pc‡‡		7.43	-	47	-1/16	47	41
Conv 3½pc '61 Aft		5.44	-	64	-¼	64	58
Treas 3pc '66 Aft		7.84	-	38	—	38	34
Consols 2½pc		7.47	-	33	-1/16	33	29⅝
Treas 2½pc		7.60	-	32	-⅛	33	29¼

Index-Linked	Notes (b)	Yield (1)	Yield (2)	Price £	+ or -	52 week High	52 week Low
4⅝pc '98‡‡	(135.6)	-	1.72	114	—	114⅝	111
2½pc '01	(78.3)	2.39	3.03	187¼	-1/16	187	178¼
2½pc '03	(78.8)	2.64	3.11	183	-⅛	184	171
4⅜pc '04‡‡	(135.6)	2.71	3.13	119	-1/16	120	112
2pc '06	(69.5)	2.87	3.19	195	-1/16	195	179
2½pc '09	(78.8)	2.99	3.25	176	-1/16	178	161
2½pc '11	(74.6)	3.08	3.31	182xd	-1/16	183	166
2½pc '13	(89.2)	3.13	3.34	150	-1/16	150	136
2½pc '16	(81.6)	3.19	3.38	160⅝	-1/16	161	145
2½pc '20	(83.0)	3.28	3.44	153	-1/16	154	138
2½pc '24‡‡	(97.7)	3.30	3.44	128	-1/16	128	115
4⅛pc '30‡‡	(135.1)	3.30	3.44	125⅞xd	-1/16	126⅝	113

Prospective real redemption rate on projected inflation of (1) 10% and (2) 5%. (b) Figures in parentheses show RPI base for indexing (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in February 1987. Conversion factor 3.945. RPI for June 1996: 153.0 and for January 1997: 154.4.

Other Fixed Interest

	Notes	Yield Int	Yield Red	Price £	+ or -	52 week High	52 week Low
Asian Dev 10¼pc 2009		8.39	7.44	122⅛	—	122⅛	111
B'ham 11½pc 2012		8.68	7.90	132½	—	132½	119½
Leeds 13½pc 2006		9.82	-	137½	—	137½	129
Liverpool 3½pc Irred		8.33	-	42	—	42	37½
LCC 3pc '20 Aft		8.11	-	37xd	—	37	32½
Manchester 11½pc 2007		9.02	7.80	127½	—	127½	117
Met. Wtr. 3pc 'B'		3.70	8.65	81xd	—	81	73½
N'wde Anglia 3⅞pc 2021		-	4.06	147¾	—	147¾	133
4⅛pc IL 2024		-	4.18	142xd	—	142	130½
Utd Mex States 16½pc 2008		12.22	-	135xd	—	135½	122

● 'Tap' stock. ‡‡ Tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds per £100 nominal of stock.
Prospective real Index-Linked redemption yields are calculated by HSBC Greenwell from Bank of England closing prices.

CURRENCIES AND MONEY

D-Mark plummets against US dollar

MARKETS REPORT

By Richard Adams

The US dollar continued to push higher yesterday, gaining against weak German, Swiss and Italian currencies with no signs of central bank retaliation.

Against the D-Mark the dollar broke through the DM1.70 level for a brief period on the European currency markets, its highest level since late 1994. But rumours of intervention by central banks to hold down its value proved unfounded.

The dollar closed in London at DM1.6995, an increase of over 1.3 pfennigs since Friday's close.

But with the US markets closed for a public holiday yesterday, the dollar's trading volumes appeared to be low. Traders said that profit-taking tomorrow could see a correction against the D-Mark.

The dollar also surged against the Swiss franc to its highest level for three years. It closed at SFr1.4805, an increase of 1.8 centimes.

Against the yen, the dollar once again approached the Y125 range thought likely to provoke intervention by the Bank of Japan. In the event the dollar still managed to gain Y0.24 to 124.440 by its London close.

The D-Mark was also weak against sterling, which gained 1.42 pfennigs to close at DM2.7476. But the pound also suffered from the dollar's muscle, falling by 0.42 of a cent to $1.6168.

The Italian lira had another tough day, with suspicion of a rate cut in the pipeline from the Italian central bank combined with concerns about membership of a single currency. The lira dropped L1.6 against the D-Mark to L987.3.

Against the dollar the lira nosedived by almost one per cent since Friday's closing price in London. The lira ended down L15.65 at L1677.65.

■ There seems to be little stopping the dollar at the moment, if market sentiment is anything to go by.

One London analyst yesterday explained the dollar's strength as "the only game in town", given the declining expectations of an interest rate rise in the UK and the flat economies of the other major trading currencies.

The effect of the Group of Seven's recent Berlin statement, that the dollar's correction had come to an end, has only served to boost the dollar further.

Traders said that yesterday's gain was spurred by a report from a Japanese news agency that Japan and the US had agreed Japan would intervene alone if the yen weakened sharply. If true, that leaves little resistance to a bullish dollar against the D-Mark.

Another effect would be a weakening of the D-Mark against the yen. At yesterday's close the D-Mark stood at Y73.24, down Y0.42, with an important support level of Y72.50 in sight.

■ The dollar's gains against the D-Mark came despite comments from Mr Alexandre Lamfalussy, president of the European Monetary Institute, who said the dollar's correction was now exaggerated, and while Mr Johann Gaddum, Bundesbank vice president, who said he saw no reason for a weaker mark.

But Mr Lamfalussy also said the current dollar rate was because of the wide interest rate differential between the US and Germany, a state of affairs unlikely to change in the short term.

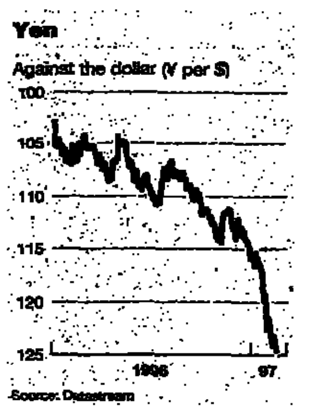
■ Sterling fell away in late trading below $1.6150, after comments by Mr Eddie George, governor of the Bank of England.

Mr George, giving evidence to the Treasury select committee at parliament, said the strength of sterling made a rise in UK interest rates less likely. His comments mark a change from the Bank's view expressed in the minutes of the meeting between the governor and the Chancellor in December.

"The exchange rate has gone further and the acceleration in the data that was apparently there in October and November has not persisted. That makes it absolutely less pressing than it was," Mr George said.

But he said he was not convinced that sterling was a "one-way" bet for foreign exchange dealers, climbing endlessly higher. "If sterling were to join [European] monetary union, I would be very surprised if it were at anything like this level in the exchange rate," he said.

Yen



Source: Datastream

■ Pound in New York

Feb 14	—Close—	—Prev. close—
£ spot	1.6220	1.6235
1 mth	1.6210	1.6226
3 mth	1.6189	1.6205
1 yr	1.6080	1.6107

■ OTHER CURRENCIES

Feb 17	£	$
Czech Rp	45.8540 - 45.9062	28.3680 - 28.3880
Hungary	283.338 - 283.542	175.290 - 175.340
Iran	4851.30 - 4849.20	3000.00 - 3000.00
Kuwait	0.4906 - 0.4911	0.3035 - 0.3037
Poland	4.9058 - 4.9160	3.0350 - 3.0400
Russia	9140.74 - 9147.93	5655.00 - 5657.00
U.A.E.	5.9367 - 5.9396	3.6728 - 3.6730

POUND SPOT FORWARD AGAINST THE POUND

Feb 17		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	19.3367	+0.1009	291 - 442	19.3523	19.2293	19.2932	2.7	19.2367	2.1	-	-	103.6
Belgium	(BFr)	56.7156	+0.3323	710 - 602	56.7200	56.3920	56.2583	2.7	55.9933	2.8	54.7983	2.8	103.4
Denmark	(DKr)	10.4746	+0.0577	707 - 785	10.4842	10.4245	10.397	2.3	10.3564	2.3	10.1775	2.3	105.4
Finland	(FM)	8.1361	+0.0326	282 - 439	8.1810	8.0960	-	-	-	-	-	-	83.6
France	(FFr)	9.2710	+0.0475	678 - 741	9.2819	9.2373	9.2027	2.7	9.1611	2.7	8.9564	2.9	106.3
Germany	(DM)	2.7476	+0.0142	466 - 486	2.7515	2.7372	2.7269	2.9	2.7136	2.9	2.6488	3.1	105.1
Greece	(Dr)	428.765	+2.275	267 - 262	430.262	425.921	-	-	-	-	-	-	66.6
Ireland	(I£)	1.0259	+0.0019	251 - 267	1.0271	1.0233	1.0237	0.4	1.0227	0.5	1.0182	0.8	103.2
Italy	(L)	2712.34	+18.24	135 - 333	2714.99	2695.78	2697.35	-1.4	2699.7	-0.8	2687.85	0.2	76.6
Luxembourg	(LFr)	56.7156	+0.3323	710 - 602	56.7200	56.3920	56.2583	2.7	55.9933	2.8	54.7983	2.8	103.4
Netherlands	(Fl)	3.0839	+0.0165	828 - 849	3.0876	3.0723	3.0596	3.1	3.0441	3.0	2.9706	3.2	103.3
Norway	(NKr)	10.9191	+0.0747	151 - 230	10.9318	10.8111	10.8319	1.4	10.8119	1.2	10.7069	1.3	102.8
Portugal	(Es)	275.898	+0.96	758 - 039	276.214	275.051	275.133	-0.9	275.503	-0.6	-	-	94.4
Spain	(Pta)	232.287	+0.897	212 - 361	232.688	231.149	231.39	0.0	231.17	0.4	228.775	1.1	77.9
Sweden	(SKr)	12.0050	+0.0703	963 - 136	12.0167	11.9517	11.9157	1.9	11.8712	2.1	11.6617	2.3	86.7
Switzerland	(SFr)	2.3936	+0.0228	924 - 948	2.3958	2.3771	2.3628	4.1	2.3476	3.9	2.2761	4.0	101.8
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	98.0
Ecu	-	1.4126	+0.006	117 - 135	1.4161	1.4074	1.4047	1.7	1.4002	1.8	1.3788	2.0	-
SDR†	-	1.174275	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.6165	-0.0034	161 - 169	1.6211	1.6158	-	-	-	-	-	-	-
Brazil	(R$)	1.6955	-0.0052	948 - 962	1.7019	1.6948	-	-	-	-	-	-	-
Canada	(C$)	2.1859	-0.0026	846 - 871	2.1918	2.1846	2.1833	2.8	2.1725	2.9	2.1135	3.4	86.7
Mexico	(New Peso)	12.5622	-0.05	513 - 730	12.6021	12.5513	-	-	-	-	-	-	-
USA	($)	1.6168	-0.0042	164 - 171	1.6222	1.6160	1.62	0.7	1.6179	0.8	1.6072	0.9	104.2
Pacific/Middle East/Africa													
Australia	(A$)	2.1081	-0.0083	069 - 092	2.1233	2.1088	2.1177	-0.7	2.1184	-0.4	2.118	-0.1	96.3
Hong Kong	(HK$)	12.5293	-0.0327	261 - 324	12.5704	12.5238	12.5547	0.7	12.5408	0.7	12.4762	0.7	-
India	(Rs)	58.0365	-0.185	835 - 895	58.2370	57.9835	-	-	-	-	-	-	-
Israel	(Shk)	5.4172	-0.001	098 - 246	5.4269	5.4098	-	-	-	-	-	-	-
Japan	(Y)	201.188	-0.14	080 - 297	202.090	201.050	200.398	5.5	198.543	5.5	190.128	5.6	121.6
Malaysia	(M$)	4.0241	-0.0025	224 - 258	4.0371	4.0224	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.3315	-0.0018	301 - 328	2.3437	2.3301	2.34	-3.5	2.3495	-2.8	2.3702	-1.6	116.0
Philippines	(Peso)	42.5965	-0.1088	711 - 219	42.6219	42.5711	-	-	-	-	-	-	-
Saudi Arabia	(SR)	6.0637	-0.0158	620 - 653	6.0837	6.0611	-	-	-	-	-	-	-
Singapore	(S$)	2.2930	-0.0058	917 - 943	2.3006	2.2928	-	-	-	-	-	-	-
South Africa	(R)	7.1356	-0.0238	316 - 395	7.1705	7.1316	-	-	-	-	-	-	-
South Korea	(Won)	1422.80	+4.28	243 - 337	1427.54	1421.09	-	-	-	-	-	-	-
Taiwan	(T$)	44.5916	-0.0508	755 - 077	44.7354	44.5755	-	-	-	-	-	-	-
Thailand	(Bt)	42.1568	-0.1432	072 - 063	42.3600	42.1072	-	-	-	-	-	-	-

† Rates for Feb 14. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Feb 17		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P. Morgan index
Europe													
Austria	(Sch)	11.9602	+0.0935	581 - 623	11.9623	11.8940	11.852	1.5	11.8067	2.0	11.6117	2.1	103.5
Belgium	(BFr)	35.0800	+0.297	600 - 000	35.1000	34.7860	34.723	2.1	34.5955	2.2	34.0555	2.1	103.8
Denmark	(DKr)	6.4788	+0.0526	778 - 798	6.4798	6.4432	6.4173	1.7	6.3989	1.7	6.3172	1.7	105.1
Finland	(FM)	5.0324	+0.0333	286 - 361	5.0527	4.9925	4.9903	2.1	4.9716	2.2	4.8891	2.2	83.2
France	(FFr)	5.7343	+0.0449	336 - 350	5.7362	5.6999	5.6817	1.8	5.6637	1.9	5.588	1.8	106.0
Germany	(DM)	1.6995	+0.0133	992 - 997	1.7003	1.6895	1.6933	2.1	1.6773	2.1	1.6525	2.0	104.9
Greece	(Dr)	265.820	+2.1	570 - 070	266.070	262.590	265.275	-7.1	267.345	-6.3	278.87	-5.7	66.5
Ireland	(I£)	1.5759	-0.0072	750 - 768	1.5838	1.5740	1.5826	0.3	1.5823	0.2	1.5794	0.2	-
Italy	(L)	1677.65	+15.65	740 - 790	1678.80	1663.14	1664.73	-2.0	1667.89	-1.4	1668.78	-0.4	76.5
Luxembourg	(LFr)	35.0800	+0.297	600 - 000	35.1000	34.7860	34.723	2.1	34.5955	2.2	34.0555	2.1	103.6
Netherlands	(Fl)	1.9075	+0.0152	072 - 077	1.9087	1.8964	1.8885	2.4	1.8805	2.5	1.845	2.5	103.3
Norway	(NKr)	6.7537	+0.0638	527 - 547	6.7566	6.6694	6.6861	0.7	6.6805	0.6	6.6549	0.5	102.5
Portugal	(Es)	170.650	+1.04	600 - 700	170.780	169.950	169.815	-1.5	170.11	-1.2	170.885	-0.8	95.0
Spain	(Pta)	143.675	+0.93	660 - 690	143.760	142.570	142.843	-0.8	142.855	-0.3	142.075	0.5	77.7
Sweden	(SKr)	7.4254	+0.0628	216 - 291	7.4291	7.3792	7.3598	0.5	7.3499	0.7	7.3026	0.8	86.6
Switzerland	(SFr)	1.4805	+0.018	801 - 809	1.4820	1.4670	1.4587	3.2	1.4508	3.2	1.418	3.0	102.1
UK	(£)	1.6168	-0.0042	164 - 171	1.6222	1.6160	1.62	0.7	1.6179	0.8	1.6072	0.9	97.4
Ecu	-	1.1445	-0.008	440 - 450	1.1506	1.1439	1.1539	-1.4	1.157	-1.5	1.1736	-1.8	-
SDR†	-	0.72455	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9999	+0.0006	998 - 999	0.9999	0.9998	-	-	-	-	-	-	-
Brazil	(R$)	1.0487	-0.0005	485 - 489	1.0491	1.0486	-	-	-	-	-	-	-
Canada	(C$)	1.3520	+0.0019	515 - 525	1.3525	1.3490	1.3478	2.1	1.3427	2.2	1.3152	2.6	86.6
Mexico	(New Peso)	7.7700	-0.0105	650 - 750	7.7750	7.7670	7.8985	-18.2	8.165	-19.8	9.0255	-16.0	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	104.4
Pacific/Middle East/Africa													
Australia	(A$)	1.3039	-0.0017	034 - 043	1.3050	1.3034	1.3071	-1.4	1.309	-1.0	1.3145	-0.7	97.7
Hong Kong	(HK$)	7.7497	+0.0002	494 - 499	7.7499	7.7480	7.7494	0.0	7.75	0.0	7.761	-0.1	-
India	(Rs)	35.8970	-0.02	720 - 220	35.9220	35.8720	36.132	-7.2	36.592	-7.5	-	-	-
Israel	(Shk)	3.3507	+0.0082	468 - 545	3.3545	3.3468	-	-	-	-	-	-	-
Japan	(Y)	124.440	+0.24	400 - 480	124.670	124.030	123.725	4.6	122.72	4.8	118.52	4.6	122.5
Malaysia	(M$)	2.4890	+0.005	885 - 895	2.4895	2.4850	2.4869	-1.4	2.4922	-1.3	2.5135	-1.2	-
New Zealand	(NZ$)	1.4421	+0.0027	415 - 426	1.4428	1.4415	1.4449	-4.6	1.4432	-2.7	1.4807	-2.9	-
Philippines	(Peso)	26.3470	+0.002	370 - 570	26.3570	26.3370	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7505	-	503 - 507	3.7507	3.7503	3.7508	-0.1	3.7512	-0.1	3.7531	-0.1	-
Singapore	(S$)	1.4183	+0.0003	178 - 188	1.4190	1.4176	1.4158	1.8	1.4112	1.9	1.39	2.0	-
South Africa	(R)	4.4135	-0.003	120 - 150	4.4245	4.4090	4.4572	-11.1	4.5322	-10.5	4.847	-9.7	-
South Korea	(Won)	880.100	+4.95	000 - 200	880.200	878.000	-	-	-	-	-	-	-
Taiwan	(T$)	27.5810	+0.041	770 - 850	27.5850	27.5700	27.5401	0.0	27.5403	0.0	-	-	-
Thailand	(Bt)	26.0750	-0.02	500 - 000	26.1400	26.0500	26.165	-4.1	26.3525	-3.9	26.99	-3.4	-

† SDR rate per $ for Feb 14. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Feb 14: Base average 1990=100.

WORLD INTEREST RATES

MONEY RATES

February 17	Over night	One month	Three mths	Six mths	One year	Lomb. Inter.	Dis. rate	Repo rate
Belgium	3½	3⅛	3⅛	3⅛	3⅝	6.00	2.50	-
France	3¼	3⅝	3¼	3¼	3⅜	3.10	-	4.75
Germany	3½	3½	3⅛	3⅜	3⅝	4.50	2.50	3.00
Ireland	5⅝	5¾	5¾	5⅞	5¾	-	-	6.25
Italy	7¾	7 13/32	7¼	7⅛	6 13/16	8.25	6.75	7.41
Netherlands	2⅞	2 29/32	2⅞	3	3⅛	-	3.00	3.30
Switzerland	1 5/16	1¼	1⅜	1 9/16	1 11/16	-	1.00	-
US	5¼	5 7/32	5⅜	5⅜	5 23/32	-	5.00	-
Japan	½	½	⅝	⅝	13/16	-	0.50	-
■ $ LIBOR FT London								
Interbank Fixing	-	5⅜	5 13/32	5 17/32	5¾	-	-	-
US Dollar CDs	-	5.13	5.16	5.20	5.32	-	-	-
ECU Linked Ds	-	4⅛	4 1/32	4 1/32	4 1/32	-	-	-
SDR Linked Ds	-	3½	3⅜	3⅝	3 25/32	-	-	-

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo Mitsubishi, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Feb 17	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	3 5/16 - 2 7/8	3 3/16 - 3 3/32	3 3/16 - 3 1/16	3 3/16 - 3 1/16	3 3/16 - 3 1/16	3¼ - 3⅛
Danish Krone	3 13/32 - 3¼	3 13/32 - 3 7/16	3⅝ - 3½	3⅝ - 3½	3 23/32 - 3 17/32	3¾ - 3 19/32
German Mark	3 5/32 - 3 1/16	3 5/32 - 2 29/32	3 3/32 - 3⅛	3 5/32 - 3 3/32	3 3/16 - 3 3/32	3 7/32 - 3⅛
Dutch Guilder	2⅞ - 2¾	3 - 2 11/16	2 29/32 - 2 27/32	3 1/32 - 2⅞	3 1/16 - 2 15/16	3 7/32 - 3 1/16
French Franc	3¼ - 3⅛	3 5/16 - 3 3/16	3 11/32 - 3 3/16	3 7/16 - 3 7/32	3 11/32 - 3 7/32	3⅜ - 3 7/32
Portuguese Esc.	6 7/32 - 5 13/16	6 5/16 - 6 3/32	6 5/16 - 6¼	6⅛ - 6 1/16	5 31/32 - 5 27/32	5 31/32 - 5 23/32
Spanish Peseta	6⅜ - 6¼	6 3/16 - 6 1/16	6 3/16 - 6	5⅞ - 5 13/16	5 25/32 - 5 21/32	5 19/32 - 5 17/32
Sterling	6 1/16 - 5 13/16	6 - 5⅞	6⅛ - 6 1/16	6 7/32 - 6 3/32	6⅜ - 6¼	6 21/32 - 6 19/32
Swiss Franc	1⅝ - 1⅛	1 11/16 - 1 19/32	1 23/32 - 1⅝	1¾ - 1⅝	1¾ - 1⅝	1 13/16 - 1 11/16
Canadian Dollar	3 - 2 13/16	3 1/16 - 2⅞	3 - 2 13/16	3⅛ - 3	3 7/32 - 3 3/32	3 7/16 - 3 5/16
US Dollar	5 5/16 - 5 3/16	5 13/32 - 5 9/32	5 7/16 - 5⅜	5⅝ - 5 7/16	5 13/16 - 5 11/16	5 13/16 - 5¾
Italian Lira	8 - 7	7½ - 7⅜	7½ - 7⅜	7 9/32 - 7 7/32	7 3/32 - 7	6 27/32 - 6 11/16
Japanese Yen	17/32 - 15/32	9/16 - 7/16	½ - ⅜	7/16 - 5/16	⅝ - ½	31/32 - 15/16
Asian $Sing	2⅞ - 2¾	2⅝ - 2½	2 11/16 - 2 9/16	2⅞ - 2¾	2 15/16 - 2 13/16	3 3/16 - 3 1/16

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH PIBOR FUTURES (MATIF) Paris interbank offered rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	96.71	96.70	-0.01	96.71	96.69	6,456	64,248
Jun	96.76	96.75	-0.01	96.76	96.73	6,629	49,261
Sep	96.73	96.73	-	96.73	96.71	1,103	35,421

■ THREE MONTH EUROMARK FUTURES (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	96.87	96.86	-	96.87	96.84	18913	187551
Jun	96.89	96.89	-	96.90	96.87	11559	176389
Sep	96.82	96.83	-	96.83	96.81	10267	149287
Dec	96.68	96.68	-0.01	96.69	96.66	9237	170869

■ ONE MONTH EUROMARK FUTURES (LIFFE)* DM3m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Feb	96.78	96.78	-0.01	96.78	96.78	731	10895
Mar	96.81	96.82	-0.01	96.82	96.81	376	17682
Apr	96.86	96.88	-0.01	96.88	96.86	355	2443
May	-	96.88	-0.01	-	-	0	3812

■ THREE MONTH EUROLIRA FUTURES (LIFFE)* L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	92.90	92.89	-0.04	92.94	92.87	6891	98064
Jun	93.45	93.42	-0.06	93.48	93.40	8483	85411
Sep	93.80	93.72	-0.10	93.81	93.71	3484	47252
Dec	93.98	93.89	-0.12	93.99	93.89	1663	33417

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	98.29	98.27	-0.03	98.30	98.27	1851	30508
Jun	98.32	98.30	-0.03	98.33	98.30	2725	35985
Sep	98.23	98.21	-0.04	98.23	98.21	440	13883
Dec	98.04	98.03	-0.04	98.05	98.03	521	9935

■ THREE MONTH EUROYEN FUTURES (LIFFE) Y100m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	99.46	99.46	-	99.46	99.46	300	n/a
Jun	-	99.44	+0.01	-	-	0	n/a
Sep	-	99.37	-	-	-	0	n/a

■ THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	95.93	95.93	-0.01	95.93	95.92	256	10778
Jun	96.01	96.01	-0.01	96.02	96.01	252	5745
Sep	96.01	96.02	-	96.01	96.01	50	4086
Dec	-	95.97	-0.01	-	-	0	4781

* LIFFE futures also traded on APT

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

Strike Price	CALLS Mar	CALLS Jun	CALLS Sep	PUTS Mar	PUTS Jun	PUTS Sep
9275	0.19	0.72	1.06	0.05	0.05	0.09
9300	0.04	0.52	0.86	0.15	0.10	0.14
9325	0.01	0.34	0.67	0.37	0.17	0.20

Est. vol. total, Calls 2300 Puts 201. Previous day's open int., Calls 139883 Puts 84730

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Feb 17		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.46	16.35	4.843	1.809	4781	5.437	19.25	486.4	409.4	21.16	4.221	1.763	3.854	2.851	354.7	2.491
Denmark	(DKr)	54.17	10	8.855	2.624	0.980	2590	2.946	10.43	263.5	221.8	11.46	2.287	0.955	2.088	1.544	192.2	1.350
France	(FFr)	61.18	11.29	10	2.963	1.107	2925	3.327	11.78	297.6	250.5	12.94	2.582	1.079	2.358	1.744	217.0	1.524
Germany	(DM)	20.65	3.811	3.375	1	0.373	987.3	1.123	3.975	100.4	84.53	4.368	0.871	0.364	0.796	0.589	73.24	0.514
Ireland	(I£)	55.28	10.20	9.036	2.677	1	2643	3.006	10.64	268.9	226.3	11.70	2.333	0.975	2.131	1.576	196.1	1.377
Italy	(L)	2.091	0.386	0.342	0.101	0.038	100.	0.114	0.403	10.17	8.562	0.442	0.088	0.037	0.081	0.060	7.419	0.052
Netherlands	(Fl)	18.39	3.395	3.006	0.891	0.333	879.4	1	3.541	89.45	75.29	3.891	0.776	0.324	0.709	0.524	65.24	0.458
Norway	(NKr)	51.94	9.588	8.490	2.516	0.940	2484	2.824	10	252.7	212.6	10.99	2.192	0.916	2.002	1.481	184.2	1.294
Portugal	(Es)	20.56	3.795	3.360	0.996	0.372	983.0	1.118	3.958	100.	84.16	4.349	0.868	0.362	0.792	0.586	72.92	0.512
Spain	(Pta)	24.43	4.509	3.993	1.183	0.442	1168	1.328	4.703	118.8	100.	5.168	1.031	0.431	0.941	0.696	86.65	0.609
Sweden	(SKr)	47.27	8.725	7.726	2.289	0.855	2260	2.570	9.100	229.9	193.5	10	1.995	0.833	1.822	1.348	167.7	1.178
Switzerland	(SFr)	23.69	4.373	3.873	1.147	0.429	1133	1.288	4.561	115.2	96.99	5.013	1	0.418	0.913	0.675	84.04	0.590
UK	(£)	56.72	10.47	9.271	2.747	1.026	2712	3.084	10.92	275.9	232.2	12.00	2.394	1	2.186	1.617	201.2	1.413
Canada	(C$)	25.95	4.790	4.241	1.257	0.469	1241	1.411	4.995	126.2	106.2	5.489	1.095	0.457	1	0.740	92.04	0.646
US	($)	35.08	6.475	5.733	1.699	0.635	1677	1.907	6.753	170.6	143.6	7.421	1.481	0.618	1.352	1	124.4	0.874
Japan	(Y)	28.19	5.204	4.608	1.365	0.510	1348	1.533	5.427	137.1	115.4	5.964	1.190	0.497	1.086	0.804	100.	0.702
Ecu		40.14	7.410	6.561	1.944	0.726	1919	2.183	7.728	195.3	164.3	8.493	1.694	0.708	1.547	1.144	142.4	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM (Feb 14)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	0.5947	0.5938	-0.0012	0.5960	0.5921	21,550	90,407
Jun	0.5970	0.5973	-0.0012	0.5992	0.5970	648	5,939
Sep	0.6012	0.6010	-0.0012	0.6012	0.6012	5	2,350

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	0.6891	0.6850	-0.0044	0.6898	0.6845	19,037	47,799
Jun	0.6933	0.6914	-0.0046	0.6952	0.6910	212	3,111
Sep	0.7010	0.6981	-0.0048	0.7010	0.7010	1	1,966

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100 (Feb 14)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	0.8070	0.8082	+0.0014	0.8115	0.8044	16,750	77,813
Jun	0.8100	0.8185	+0.0014	0.8216	0.8160	516	3,589
Sep	0.8318	0.8292	+0.0014	0.8318	0.8297	166	624

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	1.6232	1.6200	-0.0032	1.6240	1.6158	8,767	34,171
Jun	1.6150	1.6174	-0.0032	1.6210	1.6150	133	2,769
Sep	-	1.6138	-0.0032	-	1.6130	1	1,059

UK INTEREST RATES

LONDON MONEY RATES

Feb 17	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	6⅛ - 5	6⅛ - 5 13/16	6⅛ - 6	6 7/32 - 6⅛	6 7/16 - 6 5/16	6¾ - 6⅝
Sterling CDs	-	-	6 3/32 - 6 1/32	6 3/16 - 6⅛	6 3/32 - 6 7/32	6 19/32 - 6 17/32
Treasury Bills	-	-	5 13/16 - 5⅞	5⅞ - 5 13/16	-	-
Bank Bills	-	-	5 15/16 - 5⅞	6 - 5 15/16	6¼ - 6⅛	-
Local authority deps.	6 1/16 - 5 13/16	6 3/16 - 6 1/16	6¼ - 6⅛	6¼ - 6⅛	6⅜ - 6 5/16	6 11/16 - 6 9/16
Discount Market deps	6⅛ - 5½	6 - 5 13/16	-	-	-	-

UK clearing bank base lending rate 6 per cent from October 30, 1996

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	2½	5½	5	5	4¾

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1¼pc. Ave. tender rate of discount on Feb 14, 5.8415pc. ECGD fixed rate Stlg. Export Finance. Make up day Jan 31, 1997. Agreed rate for period Feb 26, 1997 to Mar 25, 1997, Scheme III 7.68pc. Reference rate for period Jan 1, 1997 to Jan 31, 1997, Schemes IV & V 6.409pc. Finance House Base Rate 6½pc from Feb 1, 1997

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	93.70	93.70	-	93.72	93.69	5176	102302
Jun	93.47	93.47	-0.01	93.52	93.45	4023	118367
Sep	93.28	93.29	-	93.34	93.27	3852	85309
Dec	93.15	93.16	-	93.21	93.14	2610	56819
Mar	93.06	93.07	-	93.07	93.05	725	38174

Also traded on APT. All Open interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Mar	CALLS Jun	CALLS Sep	PUTS Mar	PUTS Jun	PUTS Sep
9350	0.22	0.14	0.15	0.02	0.17	0.36
9375	0.03	0.05	0.07	0.08	0.33	0.53
9400	0	0.01	0.03	0.30	0.54	0.74

Est. vol. total, Calls 727 Puts 400. Previous day's open int., Calls 199165 Puts 185641

EMS EUROPEAN CURRENCY UNIT RATES

Feb 17	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Finland	5.85424	5.79147	+0.00786	-1.07	3.25	7
Portugal	197.398	196.392	-0.113	-0.51	2.67	3
Ireland	0.798709	0.729795	-0.002697	-8.63	11.79	58
Spain	163.826	165.395	-0.096	0.96	1.17	-7
Netherlands	2.16979	2.19451	+0.00128	1.14	0.99	-8
Italy	1906.48	1930.40	+4.99	1.25	0.88	-9
Denmark	7.34555	7.45327	+0.00536	1.47	0.67	-10
Germany	1.92573	1.95515	+0.00123	1.53	0.61	-15
Austria	13.5485	13.7594	+0.009	1.56	0.58	-11
Belgium	39.7191	40.3416	+0.0241	1.57	0.57	-11
France	6.45863	6.59898	+0.00122	2.14	0.00	-18
NON ERM MEMBERS						
Greece	295.269	305.828	+0.236	3.58	-1.38	-
UK	0.793103	0.712229	-0.002913	-10.20	13.74	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate. 17/9/92: Sterling suspended from ERM. Adjustment calculated by the Financial Times.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Feb	CALLS Mar	CALLS Apr	PUTS Feb	PUTS Mar	PUTS Apr
1.610	1.11	2.38	2.96	-	1.30	2.01
1.620	0.11	1.83	2.51	-	1.74	2.51
1.630	-	1.38	2.03	-	2.30	2.98

Previous day's vol., Calls 789 Puts 170. Prev. day's open int., Calls 34,447 Puts 50,583

■ PHILADELPHIA SE D-MARK/$ OPTIONS DM62,500 ($ per DM)

Strike Price	CALLS Feb	CALLS Mar	CALLS Apr	PUTS Feb	PUTS Mar	PUTS Apr
0.595	-	0.60	0.94	0.19	0.76	1.01
0.600		0.43	0.72	0.68	1.06	1.25
0.605	-	0.29	0.53	1.20	1.41	1.58

Previous day's vol., Calls 3,153 Puts 3,138. Prev. day's open int., Calls 42,547 Puts 25,421

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100% (Feb 14)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	94.48	94.51	+0.01	94.52	94.48	31,212	390,848
Jun	94.39	94.41	-0.03	94.43	94.38	61,974	384,240
Sep	94.28	94.31	-0.07	94.35	94.28	72,832	293,916

■ US TREASURY BILL FUTURES (IMM) $1m per 100% (Feb 14)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	95.02	95.03	+0.03	95.04	95.02	1,634	5,219
Jun	94.95	94.96	+0.03	94.96	94.94	202	3,458
Sep	94.85	94.85	+0.04	94.86	94.85	34	921

All Open interest figs. are for previous day

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

Strike Price	CALLS Feb	CALLS Mar	CALLS Apr	CALLS Jun	PUTS Feb	PUTS Mar	PUTS Apr	PUTS Jun
9675	0.10	0.13	0.16	0.18	0	0.02	0.02	0.05
9700	0	0.01	0.03	0.06	0.15	0.15	0.14	0.17
9725	0	0	0	0.01	0.40	0.39	0.36	0.37

Est. vol. total, Calls 4752 Puts 2355. Previous day's open int., Calls 505381 Puts 309343

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

Strike Price	CALLS Mar	CALLS Jun	CALLS Sep	PUTS Mar	PUTS Jun	PUTS Sep
9850	0.03	0.09	0.14	0.28	0.29	0.43
9875	0	0.03	0.06	0.48	0.48	0.60

Est. vol. total, Calls 500 Puts 500. Previous day's open int., Calls 5150 Puts 2835

BASE LENDING RATES

	%		%		%
Adam & Company	6.00	Duncan Lawrie	6.00	Royal Bk of Scotland	6.00
Allied Irish Bank (GB)	6.00	Exeter Bank Limited	7.00	●Singer & Friedlander	6.00
●Henry Ansbacher	6.00	Financial & Gen Bank	7.00	●Smith & Williamson Secs	6.00
Bank of Baroda	6.00	●Robert Fleming & Co	6.00	Scottish Widows Bank	6.00
Banco Bilbao Vizcaya	6.00	●Guinness Mahon	6.00	TSB	6.00
Bank of Cyprus	6.00	Habib Bank AG Zurich	6.00	United Bank of Kuwait	6.00
Bank of Ireland	6.00	●Hambros Bank	6.00	Unity Trust Bank Plc	6.00
Bank of India	6.00	Heritable & Gen Inv Bk	6.00	Western Trust	6.00
Bank of Scotland	6.00	●Hill Samuel	6.0	Whiteaway Laidlaw	6.00
Barclays Bank	6.00	C. Hoare & Co	6.00	Yorkshire Bank	6.00
Brit Bk of Mid East	6.00	Hongkong & Shanghai	6.00		
●Brown Shipley & Co Ltd	6.00	Investec Bank (UK) Ltd	6.00		
Citibank NA	6.00	Julian Hodge Bank	6.00		
Clydesdale Bank	6.00	●Leopold Joseph & Sons	6.00		
The Co-operative Bank	6.00	Lloyds Bank	6.00		
Coutts & Co	6.00	Midland Bank	6.00		
Cyprus Popular Bank	6.00	NatWestminster	6.00		
		●Rea Brothers	6.00		

● Members of London Investment Banking Association
* In administration

COMMODITIES AND AGRICULTURE

London cleared $13bn of gold a day last month

By Kenneth Gooding, Mining Correspondent

Deals involving 37.2m troy ounces of gold, or 1,157 tonnes, worth US$13.2bn were cleared every working day in January in London, the international settlement centre for gold bullion, according to the London Bullion Market Association.

The statistics confirm that "January was a big month in every sense," said Mr Andy Smith, analyst at Union Bank of Switzerland. "It was a remarkable month."

The association decided only recently to collect and publish London gold market data. Consequently, it does not have figures for January last year, which would give a true comparison of activity. However, its statistics show that in December some 29.8m ounces worth $11bn was cleared on average every day; in November it was 31m ounces worth $11.7bn and in October 27.5m worth $10.5bn.

Mr Smith pointed out that January was the worst month for gold producers since 1981 as the gold price tumbled by $25 an ounce and fell below the psychologically important $350 an ounce level.

"There was some panic and a lot of people jumped ship as the price fell," he added. "Some would say there were also official sales [by central banks] and there certainly was a great deal of selling by the hedge funds."

The data suggest dealers are doing much better than in recent years when gold was held in a very tight trading range by option activity. Prices were very volatile in January and dealers thrive on volatility and volume.

The LBMA provided the first authoritative indication of the size of the global gold market at the end of last month when, with the approval of the Bank of England, it overturned years of tradition and secrecy to provide statistics on the size and depth of the London market. Mr Alan Baker, the association's chairman, said average daily clearance figures, to be published monthly, would provide a useful benchmark for comparison and analysis of trends in the business.

Gold last Wednesday fell to $336.90 an ounce, its lowest for 3¾ years, but recovered slightly and was "fixed" in London yesterday afternoon at $344.10.

The association also gave statistics for silver bullion trade. It said 294.4m ounces of silver worth $1.4bn was cleared on average every working day in January in London, compared with 248.8m worth $1.2bn in December.

Australian mines lift gold output in 1996 by 15% to a record 292 tonnes

Higher output by Australia's gold miners in the final months of 1996 meant the country's gold production hit a record 292 tonnes last year, Nikki Tait writes.

That quantity, an increase of 15 per cent on 1995's 254 tonnes, is valued at A$4.2bn (US$3.2bn) at current prices, according to Melbourne-based Surbiton Associates.

However, the consultancy estimated that the amount realised by mining companies was probably nearer to A$5bn after allowing for forward sales and hedging. Production in the final quarter alone was 76 tonnes, a record quarterly output and a 15 per cent increase on the same period of 1995.

The rise is attributed mainly to increased output from existing operations coupled with new mines coming on stream. Among existing mines, Kalgoorlie's Super Pit, the largest single Australian producer, owned jointly by Homestake Mining of the US and Australia's Normandy group, saw production increase by 83,000 ounces to 622,000 ounces. Bronzewing, part of Mr Joseph Gutnick's Great Central Mines, lifted production by 146,000 ounces.

Newer operations contributing to the rise included the Jundee operations, also part of Great Central Mines, which began production in December 1995 and produced 238,000 ounces last year; Resolute Samantha's Chalice mine, where output reached 143,000 ounces; Eagle Mining's Nimary, producing 126,000 ounces; and Otter Gold Mines' Tanami operation, with 109,000 ounces.

Surbiton forecast production would rise again in the current 12 months, but declined to speculate on the scale of the increase.

Exxon may sell assets in Australia

By Nikki Tait in Sydney

Exxon, the US energy group, yesterday put its Australian coal and minerals assets up for sale – a move which is likely to generate interest from both domestic and international buyers.

On the coal front, the main interests include a 100 per cent stake in the New Lemington coal mine in New South Wales; an open-cut mine in the Hunter Valley which produces steaming and semi-soft coal; and a 36 per cent interest in the Ulan coal mine, which is also in NSW but nearer to Mudgee. Exxon's major partner in the Ulan mine is Japan's Mitsubishi, with 49 per cent.

The main minerals asset is a 35 per cent interest in the Golden Grove base metals mine in Western Australia. The operator of Golden Grove is the Normandy mining group, which quickly indicated that it might be interested in buying out the Exxon interest.

Normandy pointed out that it had pre-emptive rights in the event of a sale, and said it would be looking at the deal.

In addition to the three mine interests, Exxon owns minority stakes in Mount Thorley Coal Loading, and Newcastle Coal Shippers.

The US company, which holds the mineral interests through its Exxon Coal and Minerals Australia offshoot, stressed that the move did not involve any of its extensive oil, gas, chemicals or oil shale assets in Australia.

It also added that no final decision had been made to sell the non-oil assets, and that if satisfactory offers were not forthcoming, it would continue to run the businesses.

China to continue importing less wool

By James Harding in Shanghai

China's depressed wool imports are likely to continue for some time as domestic demand has slackened in the face of high stocks and slow textile sales.

Imports into China, the world's largest importer of wool, may pick up slightly in 1997, but will remain well below the levels in 1995, according to the China Daily, the official government newspaper.

Total wool imports for 1996 were expected to be 210,000 tonnes, down 25.5 per cent on 1995.

Mr Luan Richeng, general manager of Chinatex Raw Material Import and Export Corporation, said China's wool sector faced a structural crisis.

The shortage of funds among wool-spinning businesses and the rising stocks of finished wool and worsted products, reflecting the slowdown in textile sales, would depress wool imports for some time, he said.

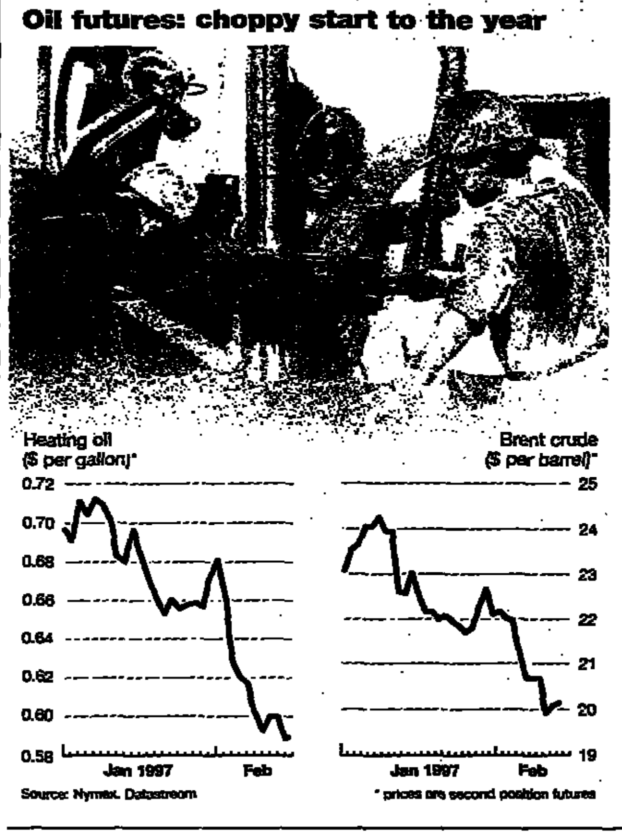
Full figures were available for January to November 1996, when China imported 198,000 tonnes, down 22.6 per cent on a year earlier. However, New Zealand wool exporters have recently recorded steeper declines in sales to China.

The Wool Exporters' Council last month announced exports to China, New Zealand's largest export market, had fallen 36 per cent in November and wool sales to Hong Kong were down 74 per cent.

The reports from China and New Zealand echo the concerns of the international wool industry, which saw prices plummet last year, as the falling sheep population did little to staunch problems caused by the sharp drop in demand.

Mild weather offers little support for oil

Oil futures: choppy start to the year



Source: Nymex, Datastream. * prices are second position futures

By Robert Corzine

Oil industry executives meeting in London this week for the annual "IP week" of seminars, lectures and socialising sponsored by the Institute of Petroleum, probably wish they were slogging through snowdrifts rather than dodging intermittent rain showers.

The prospect of snow and freezing temperatures would at least offer some support to soggy oil prices, which have fallen by more than 10 per cent over the past two weeks.

Instead, the relatively mild winter weather of recent weeks has been yet another sign that the northern hemisphere spring, which is traditionally the period of greatest weakness in oil markets, is probably just around the corner.

Yesterday, Brent Blend for April delivery, the global price benchmark, shed about 10 cents to around $20.38 a barrel in late trading on London's International Petroleum Exchange.

The consensus in the industry is that, barring a big supply disruption, the short-term oil price will remain weak. The question is how weak is "weak".

The monthly oil report published yesterday by the Centre for Global Energy Studies in London noted that oil prices "need not necessarily be heading for a heavy fall", given the large number of uncertainties attached to world supply and demand. "There is, however, one issue of which one can be reasonably certain – the price of oil is unlikely to return to a rising trend."

A price that hovers in the $18-$22 range for Brent Blend would probably not be unwelcome by most oil companies and producers, given that 1996 proved to be such a surprising financial bonanza.

However, there are fears that the steady build-up of oil supplies in recent weeks from both Opec and non-Opec producers could accelerate over the next few months. And that could trigger a sudden change in the market's structure from the current backwardation – in which buyers are willing to pay a premium for currently available oil – to contango, in which present prices are lower than those in the future.

The issue is not merely academic. Mr Philip Verleger of Charles River Associates in Washington DC says a shift to contango could occur by late May, and could be accompanied by a steep price fall of $3-$4 a barrel.

"This market is positioned to head south fast," said Mr Verleger yesterday.

The greatest periods of uncertainty in oil markets have usually been when prices are on the way down, and any fall that carried oil prices below $18 a barrel "would be a different story", according to Mr Robert Mabro at the Oxford Institute for Energy Studies.

Although Mr Mabro does not expect 1997 and 1998 to be "brilliant years" for oil prices, he rejects arguments that the emergence of excess oil supplies this spring will inevitably drive prices below the sensitive $18 level.

"A market in equilibrium needs some slack," he says. "If there is too much friction then prices go up."

Mr Mabro expects that surplus supplies will average about 300,000-400,000 barrels a day over the year, although other analysts put it considerably higher.

Whether that is too much "slack" depends on whether refiners take advantage of lower prices to rebuild badly depleted inventories, or whether they wait until the market has gone into contango.

He notes that adding one day's cover to current stocks would boost worldwide demand by 150,000 b/d, thus easing considerably concerns over surplus supplies.

However, Mr Verleger believes that the long-term trend to hold lower stocks is continuing, especially in the US.

"Unless there is a tax reason to do so, there is no incentive for them to add to inventories," he says.

LME sees further easing in copper

MARKETS REPORT

By Kenneth Gooding, Philip Coggan and Susanna Voyle

Tightness in the London Metal Exchange's copper market eased again, following heavy lending to the market on Friday by consumers not needing their metal for some time.

The premium for copper for immediate delivery, compared with metal for delivery in three months – which has been $350 a tonne in recent weeks – was down to $56 in late trading yesterday against $89 on Friday.

The falling premium was likely to draw in less metal to the exchange, dealers said, and the LME was likely to report a rise of 3,000-5,000 tonnes when it reports stock statistics today.

Traders said an expected pick-up in demand from China, following a pause for the lunar new year celebrations, and growing consumption by US and European construction industries might soon reverse the trend and drive LME stocks to low levels.

The aluminium market took in its stride an announcement by Hydro Aluminium, part of Norsk Hydro, Norway's biggest company, that it was in the next two months to restart 20,000 tonnes of capacity, taking its output up from an annual 580,000 tonnes to 650,000 tonnes.

Analysts at Macquarie Equities, part of the Australian bank, said the move would leave about 800,000 tonnes of aluminium capacity still idle, most of it in North America. They expected aluminium stocks to be sufficiently low and prices sufficiently high for most of the capacity to be restarted in the first half of next year.

Macquarie is forecasting an average cash aluminium price of $1,653 a tonne this year. Aluminium for delivery in three months on the LME increased to $1,569 in late trading yesterday, up $6.

Billiton Metals, a Gencor subsidiary, said the aluminium market was likely to remain in balance this year. It is forecasting an average three-month price of $1,585 a tonne this year and $1,720 in 1998 and sees a supply surplus of 100,000 tonnes in 1997 and a 180,000 tonnes deficit next year.

Coffee saw profit-taking after a sharp price rise last week. The London market responded to a Friday night price fall in New York, ahead of the US holiday yesterday. Although there was an afternoon rally on the London International Financial Futures Exchange, coffee for May delivery ended $62 lower at $1,613 a tonne.

The New York market rose by 30 cents a pound last week. "There is a lot of speculative interest in New York," said a trader. "Roasters have been living on low inventory cover and were forced to chase the market."

A rally in second-position coffee futures, from $1.05 a pound before Christmas to $1.78 on Friday, means shoppers could face higher prices in May, a UK industry group warned.

Mr George Miller, chairman of the Beverage Service Association, said roasters in Germany, the Netherlands and the US had already increased prices. "It is inevitable that prices from British roasters will rise very significantly in the near future," he said.

Shipping rates for commodities rose again, pushing the Baltic Freight Index up 5 points to 1,465. The index, which reflects the dry cargo shipping market, has been lifted by firmer Atlantic Panamax grain rates.

It as the index's 13th consecutive daily rise, and means it is more than 100 points higher than it was at the end of last month. The index, which is traded as a futures contract on the London International Financial Futures Exchange, was in a trough at the start of the year because of oversupply of vessels.

JOTTER PAD

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE
(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1532.5-33.5	1565.5-66.5
Previous	1530.5-31.5	1563-63.5
High/low	1531	1573/1553
AM Official	1533-34	1565-66
Kerb close		1569-70
Open int.	255,794	
Total daily turnover	119,658	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1455-65	1485-87
Previous	1440-50	1470-75
High/low	1460	1490/1465
AM Official	1460-62	1480-85
Kerb close		1486-87
Open int.	5,611	
Total daily turnover	3,157	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	646.5-7.5	655-6
Previous	650.5-1.5	658.5-9
High/low		656/654
AM Official	645-6	654.5-5.5
Kerb close		654-4.5
Open int.	39,789	
Total daily turnover	8,952	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	7670-80	7768-69
Previous	7650-60	7740-45
High/low	7640	7770/7739
AM Official	7640-41	7739-40
Kerb close		7755-60
Open int.	51,543	
Total daily turnover	3,157	

■ TIN ($ per tonne)

	Cash	3 mths
Close	5965-75	6015-20
Previous	5925-35	5975-80
High/low	5945	6000/5980
AM Official	5945-46	5990-95
Kerb close		6025-30
Open int.	16,078	
Total daily turnover	4,418	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	1193-94	1215-16
Previous	1184.5-86.5	1207-09
High/low	1196/1195.5	1220/1206
AM Official	1195-96	1216-17
Kerb close		1219-19.5
Open int.	90,372	
Total daily turnover	28,121	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	2321-23	2265-66
Previous	2346-51	2257-58
High/low	2320/2315	2268/2248
AM Official	2320-21	2284-65
Kerb close		2278-79
Open int.	143,499	
Total daily turnover	61,249	

Base metals continued

■ LME AM Official £/$ rate: 1.6220
LME Closing £/$ rate: 1.6168

Spot 1.6182 3 mths: 1.6152 6 mths: 1.6118 9 mths: 1.6082

PRECIOUS METALS

■ LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	344.00-344.50		
Opening	344.00-344.30		
Morning fix	343.60	211.84	506.64
Afternoon fix	344.10	212.34	507.96
Day's High	344.20-344.50		
Day's Low	343.50-343.80		
Previous close	345.60-346.10		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	3.79	6 months	3.98
2 months	3.85	12 months	3.96
3 months	3.89		

Silver Fix	p/troy oz.	US cts equiv.
Spot	321.85	521.75
3 months	326.25	527.90
6 months	330.90	534.35
1 year	340.50	547.40

Gold Coins	$ price	£ equiv.
Krugerrand	353-356	218-220
Maple Leaf	-	-
New Sovereign	81-84	50-52

ENERGY

■ CRUDE OIL IPE ($/barrel)

	Sett price	Day's change	High	Low	Vol	Open int
Apr	20.34	-0.15	20.51	20.33	5,745	61,581
May	20.07	-0.20	20.21	20.06	574	27,564
Jun	19.82	-0.19	19.93	19.82	175	19,297
Jul	19.61	-0.20	19.71	19.61	187	11,954
Aug	19.46	-0.20	-	-	-	4,239
Sep	19.32	-0.21	19.40	19.40	37	5,725
Total					29,230	145,929

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	177.50	-0.75	179.75	177.50	3,882	18,841
Apr	176.00	-0.50	178.00	176.00	1,380	9,092
May	175.75	-1.25	177.75	175.75	435	4,721
Jun	176.25	-1.00	177.75	176.50	296	8,385
Jul	176.75	-1.00	178.25	178.00	70	3,640
Aug	177.25	-1.25	-	-	-	1,088
Total					13,992	65,251

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (£ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	92.50	-0.80	92.80	92.50	109	1,044
May	95.50	-0.70	95.85	95.45	176	3,148
Jul	97.50	-0.70	97.75	97.50	55	575
Sep	91.35	-0.50	-	-	-	32
Nov	93.35	-0.50	93.35	93.35	5	1,713
Jan	95.35	-0.50	95.35	95.35	10	201
Total					355	6,738

■ BARLEY LIFFE (£ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	92.25	-0.75	92.50	92.50	10	244
May	93.25	-0.50	93.50	93.50	10	142
Sep	90.90	-0.60	-	-	-	28
Nov	92.90	-0.60	93.00	93.00	30	298
Jan	94.90	-0.60	95.00	95.00	10	27
Total					60	739

■ POTATOES LIFFE (£/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	56.0	-	-	-	-	-
Apr	61.5	+1.5	61.5	61.5	1	1,077
May	69.0	-	69.0	69.0	1	156
Jun	75.5	-	-	-	-	-
Nov	65.5	-	-	-	-	2
Apr	110.0	-3.0	112.0	110.0	7	615
Total					9	1,850

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

	Sett price	Day's change	High	Low	Vol	Open int
Feb	1510	-5	1515	1510	12	330
Mar	1560	-20	1580	1550	40	611
Apr	1565	-10	1581	1550	69	1,214
Jul	1290	-5	1295	1290	12	624
Oct	1405	-	-	-	-	213
Jan	1416	-	-	-	-	49
Total					133	3,047

	Close	Prev
BFI	1465	1460

SOFTS

■ COCOA LIFFE (£/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	849	-3	850	845	1,542	21,936
May	874	-1	876	870	692	27,147
Jul	894	-1	895	890	405	13,063
Sep	913	-1	912	910	22	14,821
Dec	929	-	929	925	193	15,845
Mar	949	-1	950	947	239	19,833
Total					3,208	132,183

■ COFFEE LIFFE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	1600	-52	1624	1580	1,089	12,185
May	1615	-60	1635	1595	1,800	21,812
Jul	1643	-57	1650	1625	545	8,905
Sep	1645	-55	1649	1632	197	3,387
Nov	1645	-55	1645	1628	37	1,526
Jan	1645	-55	1691	1691	-	199
Total					3,468	48,024

Softs continued

■ WHITE SUGAR LIFFE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	303.7	-0.9	304.6	303.1	359	12,425
Aug	303.9	-0.7	305.0	303.6	69	3,348
Oct	299.8	-0.6	300.0	299.5	26	2,580
Dec	300.1	-0.4	300.0	300.0	10	721
Mar	300.6	-0.6	-	-	-	443
May	301.6	+1.1	-	-	-	153
Total					464	19,680

FUTURES DATA
All futures data supplied by CMS.

LONDON TRADED OPTIONS

Strike price $ tonne	Calls		Puts	
■ ALUMINIUM (99.7%) LME	Mar	Jun	Mar	Jun
1550	23	72	24	46
1575	13	60	39	58
1600	7	48	57	71
■ COPPER (Grade A) LME	Mar	Jun	Mar	Jun
2200	129	118	4	79
2250	87	93	12	103
2300	53	73	28	132
■ COFFEE LIFFE	Mar	May	Mar	May
1600	22	116	22	101
1650	6	95	56	130
1700	1	78	101	163
■ COCOA LIFFE	Mar	May	Mar	May
800	49	78	-	4
850	51	40	6	16
900	-	26	26	27
■ BRENT CRUDE IPE	Apr	May	Apr	May
1950	112	112	28	55
2000	78	85	44	220
2050	54	65	70	108

Tea

The Tea Broker's Association reports good demand. Landed colouny medium East Africans sold well and prices advanced 2 to 3 pence. Bright liquoring teas were fully firm to dearer. Offshore good enquiry at firm rates. Quotations: this sale landed, best available 175p/kg., good 125p/kg., good medium 117p/kg., medium 109p/kg., low medium 90p/kg. nom. The highest price realised this week was 175p for a Ceylon

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)

		+or-
Dubai	$18.39-8.49w	
Brent Blend (dated)	$20.49-0.53	-0.015
Brent Blend (Apr)	$20.33-0.35	-0.05
W.T.I.	$21.86-1.92w	

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	$214-216	+1
Gas Oil	$178-179	-2
Heavy Fuel Oil	$95-97	
Naphtha	$219-223	-1.5
Jet fuel	$202-204	-2
Diesel	$196-199	-0.5

■ NATURAL GAS (Pence/therm)

Bacton (Mar)	9.80-10.50	-0.40

Petroleum Argus. Tel. London (0171) 359 8792

■ OTHER

Gold (per troy oz)♣	$344.25	-1.60
Silver (per troy oz)♣	521.00c	-6.50
Platinum (per troy oz.)	$363.75	-3.00
Palladium (per troy oz.)	$133.25	-3.00
Copper	114.0c	+1.0
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	14.50r	+0.09
Tin (New York)	274.50	
Cattle (live weight)	100.81p	-0.42*
Sheep (live weight)	143.16p	-1.18*
Pigs (live weight)†	80.92p	+8.85*
Lon. day sugar (raw)	$283.60	+1.10
Lon. day sugar (wte)	$307.50	+1.50
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	Unq	
Wheat (US Dark North)	Unq	
Rubber (Mar)♥	79.50p	
Rubber (Apr)♥	79.50p	
Rubber (KL RSS No1)	303.5x	-2.0
Coconut Oil (Phil)§	782.5y	+5.0
Palm Oil (Malay.)§	572.5w	+7.5
Copra (Phil)§	$495.0y	
Soyabeans (US)	211.0x	+5.0
Cotton Outlook'A' index	79.90	
Wooltops (64s Super)	403p	+3

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. x Jan w Mar y Feb/Mar♥ London Physical. § CIF Rotterdam. ♣ Bullion market close. * Change on week. †Based on 480 head of pigs sold.

INDICES

■ Reuters (Base: 18/9/31 = 100)

Feb 17	Feb 14	month ago	year ago
1973.6	1977.4	1924.3	2148.0

■ CRB Futures (Base: 1967 = 100)

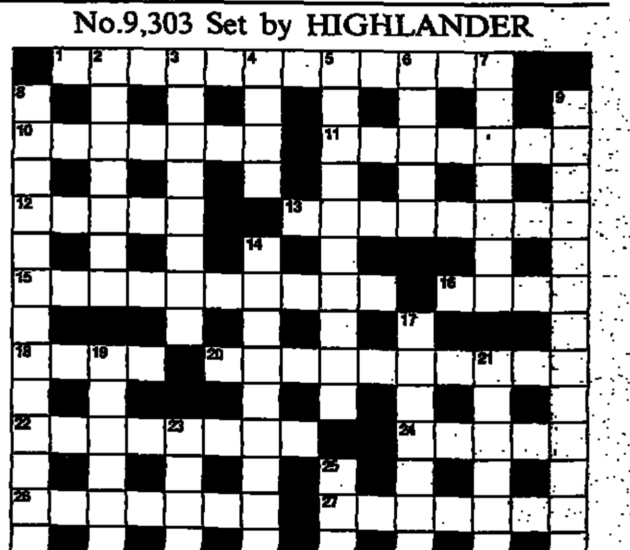
Feb 14	Feb 13	month ago	year ago
239.51	237.97		

■ GSCI Spot (Base: 1970 = 100)

Feb 14	Feb 13	month ago	year ago
192.79	192.38	214.95	194.66

CROSSWORD

No.9,303 Set by HIGHLANDER



ACROSS

1 Rider is behind the idea (12)
10 Employee turned to repel rugby player (4,3)
11 A length of timber salesman turned into a trellis (7)
12 What a monarch has left between the sheets (5)
13 Idiot given unfinished sign to put together (8)
15 He died having learned to destroy (10)
16 Grouse beginning to feed on insect (4)
18 Club for drivers going on Egyptian run (4)
20 Powerful African reversed into secure area (6,4)
22 Extremely old principal girl in abridged version (8)
24 Check on vehicles in front of the Spanish roadside stop (5)
26 Terrorist group trapped in act of leaving. What a feat! (7)
27 Is able to finish with farewell music (7)
28 Teed off before Brazilian capital and property tax gets worse (12)

DOWN

2 Letters from admirers, chap said on the blower (3,4)
3 Atrocity in Rome upset both sides in Tuscany (8)
4 Row if FT order is changed (4)
5 Those against work given a job (10)
6 Guzzle golden egg cooked outside (5)
7 Start of the foreign currency problem (7)
8 Creator of dance routine has a job to run over hit with her (13)
9 Rewritten as male part if I appear as head of household? (13)
14 To draw out or to draw angles with (10)
17 For example someone from Muscat with a great love of himself (8)
19 With bits broken off, like some potatoes (7)
21 Unfashionable fashion shock (7)
23 Hostile craft from French and containing snake (1-4)
25 Ape community has sound to attract attention (7)

Solution to Saturday's prize puzzle on Saturday March 1.
Solution to yesterday's prize puzzle on Monday March 3.

FT MANAGED FUNDS SERVICE

Offshore Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Fidelity Currency Funds Ltd

Jupiter Tyndall (Bermuda) Ltd

Newport Investment Management

Orbis Fund Limited

BERMUDA (REGULATED)(**)

Aristocrat Capital Management Ltd

Bermuda Intl Invest Mgmt Ltd

Butterfield Management Co Ltd

Integral Bond Arbitrage Fund Limited

Orbis Investment Management Ltd

Philo Smith & Co

GUERNSEY (SIB RECOGNISED)

AIB Investment Managers (Guernsey) Ltd

Adams & Neville Fd Mangt (Guernsey) Ltd

Gartmore Flight Fd Mngrs (Guernsey) Ltd

Hambros Fd Mgrs (CI) Ltd

Kleinwort Benson Intl Fd Mngrs Ltd

Lazard Fund Mngrs (Channel Islands) Ltd

Lloyds Intl Money Market Fund Ltd

M & G (Guernsey) Ltd

Prudential Fund Managers (Guernsey) Ltd

Rothschild Asset Management (CI) Ltd

Royal Bk of Canada O/S Fd Mgrs Ltd

Saudi International (Guernsey) Ltd

Schroder Investment Mngmt (Guernsey) Ltd

UBK Asset Management (Guernsey) Ltd

IRELAND (SIB RECOGNISED)

AIB Fund Management Ltd

Bank of Cyprus Group

Barclays International Funds Management (Ireland) Ltd

Christows Investments Plc

Coutts & Co Fund Managers Limited

Credit Lyonnais Intl Asset Mgt (HK) Ltd

GUERNSEY (REGULATED)(**)

ANZ Mngmt Co (Guernsey) Ltd

Apollo Investment Management Ltd

Arab Bank Fund Managers (Guernsey) Ltd

Barclays Global Investors Guernsey Ltd

CIBC Fund Managers (Guernsey) Ltd

Castle Management (Guernsey) Ltd

Clariden Bank

Confederation Life Capital Mgt

Consolidated Union Capital Inc

Credit Suisse Asset Management

Dresdner Kleinwort Benson Intl Mgt Services Ltd

Global Asset Management

Guinness Flight Select Funds Plc

Hambros Fund Managers (Ireland) Ltd

Henderson Crosthwaite Investment Co

Lazard Brothers Investment Funds Ltd

Morgan Grenfell Investment Funds Ltd (a)

Murray Johnstone (Dublin) Ltd

Tilney (Ireland) Ltd

IRELAND (REGULATED)(**)

AIB Fund Management Ltd

AGA Investment Funds Plc

Baring International Fd Mgrs (Ireland) Ltd

Barclays Global Investors Ireland Ltd

Bank of Ireland Asset Management

Bank of Ireland Unit Managers Ltd

Berkshire Korea Fund Plc

Global Resources Stock Fund

Goldman Sachs

Gordon House Asset Management Ltd

HSBC UK Equity Plus Plc

Hambros Fund Managers (Ireland) Ltd

INVESTORS Fund Services (Ireland) Ltd

Lazard Brothers Investment Funds Ltd

Marathon Asset Management (Ireland) Ltd

Morgan Grenfell Cash & Money Market Plc

Morgan Grenfell Income Funds Plc

Murray Johnstone

Paine Webber Offshore Funds Plc

Sanwa Yamaichi Asia Growth Fund Plc

Scottish Amicable European/International

Societe Generale Group

Ulster Bank Investment Services

Yamaichi Germany Dynamic Korea Fund

Yuki Korea Fund

ISLE OF MAN (SIB RECOGNISED)

Allied Dunbar Intl Fund Mgrs (1000)F

Ashburton Global Funds Ltd (1200)

Bank of Ireland Asset Mngt (IOM) Ltd

Barclays Intl Funds

CMI Fund Managers (IoM)

Colonial Intl Fd Managers (Isle of Man) Ltd

Gaffney Intl Mngt (IoM) Ltd

Old Mutual Intl Fd Managers (Isle of Man) Ltd

Sun Life Management (IoM) Ltd

Ulster Bank Global Funds Plc

Valbonk Spearhead Fund Ltd

ISLE OF MAN (REGULATED)(**)

BOE International Asset Management (IoM) Ltd

Bank of Ireland Asset Mngt (IOM) Ltd

JERSEY (SIB RECOGNISED)

AIB Fund Managers (CI) Ltd

Barclays International Funds

Gartmore Fund Managers Intl Ltd (a)

Jardine Fleming Unit Trusts Ltd

Jersey General Unit Trust Mgrs Ltd

Midland Bank Fund Managers (Jersey) Ltd

JERSEY (REGULATED)(**)

Bank of Scotland Fund Managers (Jersey) Ltd

Barclays Global Investors Ltd

Barclays Intl Funds

Capital House International Asset Mgt (CI)

Citibank (CI) Ltd

Flemming Group

Foreign & Colonial Mngt (Jersey) Ltd

Jupiter Asset Managers (Jersey) Ltd

Lazard Fund Administrators (CI) Ltd

Liberty International Managers Ltd

Lloyds Private Banking Ltd

Mercury Asset Mngt (Channel Islands) Ltd

Prudential Fund Managers (Jersey) Ltd

Royal Bank of Scotland Fd Mgrs (Jersey) Ltd

Standard Bank Fund Mngt (Jersey) Ltd

TSB Fund Managers (CI) Ltd

Worldinvest (Managers) Jersey Ltd

LUXEMBOURG (SIB RECOGNISED)

ABN AMRO Funds

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Abtrust Fund Mngrs Luxembourg SA (u)
4 Boulevard Royal L 2449 Luxembourg 00 352 227001

Abtrust Atlas Fund

	Init Charge	Notes	Selling Price	Buying Price	+ or -	Yield Gr's
Global Cap Portfolio			$4.014		-0.018	-
United States Portfolio			$6.07		-0.004	-
Contl Europe Portfolio	0		DM7.573		+0.056	-
Japan Portfolio			£0.566		+0.005	-
Pacific Portfolio			$8.673		-0.032	-
Gold Portfolio			$6.212		+0.132	-
UK Growth of Income			£2.270		+0.004	3.61
Dollar Portfolio			$1.8		+0.001	7.03
Sterling Portfolio			£1.064		—	6.30

Aetna Master Fund (u) (x)
21 avenue de la Liberte, L-1931, Lux 00 352 2954 941

	Init Charge	Notes	Selling Price	Buying Price	+ or -	Yield Gr's
Australasian NAV			A$17.59		-0.08	-
Austrian Nat NAV			Sch67.33		+0.03	-
Belgo/Lux NAV			BF4897.19		+0.82	-
Dutch Nat NAV			Dfl47.44		+0.29	-
French Nat NAV			FFr151.35		-0.01	-
German Nat NAV			DM21.02		+0.07	-
Hongkong Nat NAV			HK$134.05		-1.25	-
Italian Nat NAV			L14284		-14	-
Japanese Nat NAV			Y1175		+9	-
Spanish Nat NAV			Pta1539		+6	-
UK Nat NAV			£11.13		+0.03	-
United States Dlr Res			$11.75		+0.01	-

Prices quoted are "A" shares.

American Phoenix Investment Portfolios (u)
13 rue Goethe, L-1637 Luxembourg 00 352 404646211

Fleming Group (u)
6 Route De Treves L-2633 Senningerberg Luxembourg
00 352 34101 or 0800 680 254

Fleming Flagship Fund (daily dealing)

	Init Charge	Notes	Selling Price	Buying Price	+ or -	Yield Gr's
FFF American			$58.60	61.97	+0.41	-
FFF Amer Fledgling F			$64.95	68.71	-0.14	-
FFF Asian Smaller Cos F			$10.67	11.29	+0.04	-
FFF China			$15.42	16.31	+0.05	-
FFF Continental Europe F			DM43.98	46.08	-0.09	-
FFF DM Balanced F	5		DM11.76	12.44	+0.04	-
FFF DM Bond	3		DM11.29	11.70	+0.01	6.50
FFF Eastern European F			DM31.80	33.64	+0.49	-
FFF Emerging Markets F			$10.41	11.02	+0.02	-
FFF European			DM43.16	45.68	+0.02	-
FFF Global Conv F			$18.24	19.30	-0.05	-
FFF Intl Bond F			$13.64	14.43	+0.01	-
FFF Japanese			$14.09	14.91	+0.05	-
FFF Japanese Smaller Cos F			$5.82	6.15	-0.02	-
FFF Latin American			$13.49	14.27	-0.11	-
FFF Pacific			$21.41	22.65	+0.07	-
FFF UK Enterprise			£5.57	5.88	-0.04	-
FFF US Discovery			$45.08	47.46	-0.17	-

Fleming Flagship Series II (Daily Dealing)

	Init Charge	Notes	Selling Price	Buying Price	+ or -	Yield Gr's
DM Class F			DM12.401		+0.003	2.63
FFr Class F			FFr64.039		+0.015	2.93
ITL Class F			L21983		+11.90	6.36
£ Class F			£5.187		+0.002	5.85
US$ Class F			$11.970		+0.005	5.18

LUXEMBOURG (REGULATED)(**)

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OTHER OFFSHORE FUNDS

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

CHEMICALS

CHEMICALS - Cont.

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ENGINEERING

ENGINEERING - Cont.

EXTRACTIVE INDUSTRIES - Cont.

FOOD PRODUCERS

INSURANCE - Cont.

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

ENGINEERING - Cont.

FOOD PRODUCERS - Cont.

GAS DISTRIBUTION

HEALTH CARE

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

HOUSEHOLD GOODS

INSURANCE

INV TRUSTS SPLIT CAPITAL

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

LIFE ASSURANCE

MEDIA

MEDIA - Cont.

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

PAPER, PACKAGING & PRINTING

PAPER, PACKAGING & PRINTING - Cont.

PHARMACEUTICALS

PROPERTY

PROPERTY - Cont.

RETAILERS, FOOD

RETAILERS, GENERAL

RETAILERS, GENERAL - Cont.

SUPPORT SERVICES

SUPPORT SERVICES - Cont.

TELECOMMUNICATIONS

TEXTILES & APPAREL

TEXTILES & APPAREL - Cont.

TOBACCO

TRANSPORT

WATER

AIM

AIM - Cont.

AMERICANS

CANADIANS

SOUTH AFRICANS

	Notes	Price	+ or -	52 week high	52 week low	Mkt Cap£m	Yld Gr's	P/E
Anglo Am Ind	g	£23¼	-	*£31½	£20¼	1,864	3.3	ϕ
Barlow		£7½	-⅛	£9⅝	£5⅞	1,440	2.1	14.4
Gold Flds Prop R	†	138¼	+¼	159	120	14.2	6.5	10.2
MK Props		65	—	95	60	2.61	13.8	-
SASOL		645	—	710	517	3,777	1.7	-
SA Brews		£19½xd	+1½	£24½	£13¾	5,682	1.8	ϕ
Standard Bank		£25½	-⅛	£31½	£21	3,064	1.4	22.3
Tiger Oats		790	—	1175	770	1,188	2.3	15.3
Tongaat-Hulett		765½xd	+2	1139	676¼	724.6	2.4	ϕ

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid-prices over a rolling 52 week period.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- * Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ϕ Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- # Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
z Dividend yield includes a special payment

F Yield based on prospectus or other official estimates for 1996-97.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1997.
K Yield based on prospectus or other official estimates for 1996
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1995-96.
R Dividend is paid in whole or part as a

FID (Foreign Income Dividend)
S Forecast annualised yield, p/e based on prospectus or other official estimates.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xi ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1425 a year for each security shown, subject to the Editor's discretion.

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LONDON STOCK EXCHANGE

Footsie hunts for direction after recent rally

MARKET REPORT

By Peter John

London stocks traded within an aura of almost eerie calm yesterday. Traders looked at the market's new peak, achieved on Friday, and waited for inspiration.

With Wall Street closed for Presidents' Day and no significant UK economic data published yesterday there was a lot of watching.

Caution ahead of results and data later in the week combined with nervousness ahead of Labour's censure vote on the agriculture minister over the BSE crisis saw the FTSE 100 index drop 3.2 to 4,337.8. Once the impact of companies going ex-dividend was stripped out, Footsie was virtually unchanged.

The FTSE 250 ended the day up 0.5 at 4,606.5 and the SmallCap 2.1 higher at 2,341.0.

London stood apart from the wider European trend. Twelve continental bourses including Germany, France, Switzerland and Norway hit new peaks as the dollar rose against the D-Mark. The rally will remove some pressure from hard-pressed European exporters.

In the UK, sterling was also slightly weaker against the dollar. But the UK exchange rate index moved higher as sterling gained against the D-Mark.

Consequently, potential equity investors stayed at home, fretting about valuations and concentrating on individual issues.

Footsie was marked down by almost 22 points in early morning trading, partly to reflect Friday's slight downturn on Wall Street.

Also, the equity futures contract traded at a discount to its estimated fair value all day.

The mark-down failed to flush out serious investment, however, and the slow recovery throughout the day was matched by turnover of only 736.1m shares at 6pm. That compared with 925.1m on Friday when genuine customer business, excluding Crest deals, was valued at £647.1m, the lowest for nearly two weeks.

The biggest contribution to the day's business came from the demerger of British Gas into BG and Centrica. Between them, the two new Footsie constituents accounted for more than 10 per cent of the day's volume. Williams has dropped out of the index.

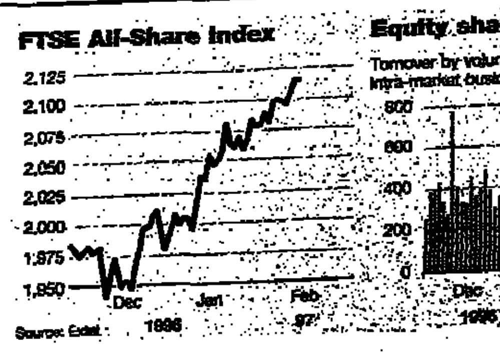
Without that, activity was dull indeed. Footsie has hit many strategists' end-of-year targets already and, while a Labour victory is already factored into forecasts, further interest rate rises are seen as inevitable.

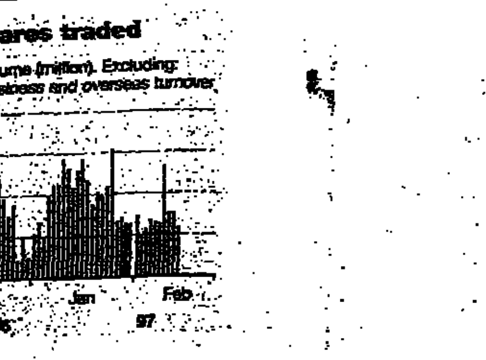
Furthermore, if retail sales figures tomorrow are stronger than expected, higher interest rates could be right back on the agenda.

On the other hand, some traders are waiting to see if Barclays announces a share buy-back today. If it does, that could inject some £400m into the market.

There is also some speculative optimism driving Unilever. The foods-to-detergents group has risen 15 per cent over the past week on unusually heavy volume in Amsterdam, New York and London and acquisition talk is growing.

Further clues could come from public sector borrowing data today and M4 monetary figures on Thursday.





Indices and ratios

FTSE 100	4337.8	-3.2	FT 30	2845.8	-12.4
FTSE 250	4606.5	+0.5	FTSE Non-Fins p/e	18.44	18.25
FTSE 350	2140.9	-1.1	FTSE 100 Fut Mar	4325.0	-9.0
FTSE All-Share	2113.17	-0.95	10 yr Gilt yield	7.16	7.14
FTSE All-Share yield	3.51	3.50	Long gilt/equity yld ratio	2.07	2.08

Best performing sectors
1 Food Producers .... +1.5
2 Leisure & Hotels .... +1.1
3 *Oil Exploration* .... +0.8
4 Extractive Industries .... +0.8
5 Paper, Pckg & Print. .... +0.7

Worst performing sectors
1 Gas Distribution .... -3.1
2 Health Care .... -1.5
3 Pharmaceuticals .... -1.3
4 Diversified Industrials .... -1.0
5 Engineering: Vehicles .... -0.9

Gas split gloom at Centrica

It was a day of mixed fortunes as trading in the newly-demerged BG and Centrica got under way. The first day of dealing also saw both stocks make their debut in the FTSE 100 index.

Shares in the former, which is now the owner of the pipeline network and the exploration operations of the old British Gas, were in demand and moved against the market trend to end the day up 2½ at 174½p, against Friday's closing price in the "grey market".

Buyers of BG were particularly encouraged by favourable press comment in the last week and analysts' suggestions that the stock is worth around 220p a share on a valuation basis.

However, it was a different story for Centrica, formerly the trading arm of British Gas. Heavy selling of the stock saw it lose 13.5 per cent of Friday's grey market price, as it slipped 10¼ to 65¼p - the worst performer in the Footsie.

Dealers said the stock had been hit by concerns about the supply of gas to UK households next year with the opening up of the UK market to competition.

Specialists also pointed to selling by income funds in the wake of the company's recent confirmation that it will not pay a dividend in the initial stages.

Merrill Lynch reiterated its bearish stance on the stock and its 40p target price. Some of the day's main selling was attributed to ABN Amro Hoare Govett and Dresdner Kleinwort Benson, with general profit-taking following last week's strong performance in the grey market cited as reason for the disposals.

In addition, some specialists suggested there had been US selling, largely for tax reasons. There was also some switching out of Centrica and into BG, a factor that also played a part in the day's decline.

By the close a hefty 54m had been dealt, by far the most heavily traded FTSE 100 stock of the day. Turnover in BG, the day's second busiest stock, was 19m.

Unilever was the best performer in the FTSE 100, climbing 67 to 1,604½p, an all-time high. The rise came in the wake of a very strong performance last week, *particularly in the US.*

One analyst said Unilever's finance director had recently been visiting investors in the US, who for some time have been warm to the stock. In comparison, UK investors have remained lukewarm. The analyst cited Unilever's recent better-than-expected results and evidence of a change in culture.

Sector strategists downplayed any impact on the *share price of remarks by Mr* Morris Tabaksblat, the Anglo-Dutch group's chairman, that the company could return some of the proceeds from the planned sale of its speciality chemicals business if substantial takeovers did not occur. One analyst said that Unilever may return the proceeds to shareholders if it could not find anything better to do with the money, but he remained sceptical.

There was also talk of a possible takeover of Colgate Palmolive. Analysts said Unilever would probably love to own it but would face huge hurdles because of monopoly concerns.

It was a mixed day for *banking stocks. Lloyds TSB*, which reported bumper preliminary figures on Friday, was the toast of the market as analysts upgraded current year profit expectations following a meeting with the company.

Having retreated on Friday in general profit-taking, the shares yesterday jumped 15 to 518½p, with 10m traded by the close.

NatWest Securities was among those said to have upgraded profit forecasts. It is believed to have raised its estimate for the current year from £2.96bn to £3.12bn, while it upgraded the following year's from £3.45bn to £3.68bn.

There seemed to be little to celebrate at **Barclays**, which reveals figures today. The shares tumbled yesterday, losing 16½ to 1,199½p, as dealers focused on a weekend press report *suggesting that BZW, the invest*ment banking arm of Barclays, will surprise the market with news of a sharp profits setback.

The word is that profits at BZW will fall by around a third to around the £190m mark. Dealers suggested only the prospect of a share buy-back had prevented a further retreat in the shares.

In the rest of the sector, **National Westminster** was wanted and gained 5¼ to 834½p.

Great Universal Stores hardened 14¼ to 650p after **British Land** confirmed that the duo were in talks regarding the formation of a joint venture to purchase and manage most of the investment property interests of GUS. British Land rose 4½ to 522p.

GUS was also buoyed by positive comment from NatWest Securities. The broker *said it was warming to the* stock, with further strategic changes anticipated. It said that, over the next six months, investors should be looking to buy as the market focused on the downgrades.

Rank Group hardened 10¼ to 422p ahead of results later this week and on hopes of the early sale of its films distribution business.

London Clubs, owner of seven casinos, fell 6½ to 378½p after unleashing a *hostile bid, worth £181m, for* **Capital Corporation**, which rose 15½ to 186½p. Capital Corporation, which rejected the bid, owns Crockfords and the Colony Club, two of London's leading casinos.

Matthew Clark, the alcopops and cider maker, hardened 17½ to 309p with one analyst suggesting a couple of substantial sell programmes had finished and there was a bit of speculative interest in the stock.

Shares in BT improved 5¼ to 441p, with sentiment cheered by news of a world pact to liberalise the international telecommunications market. The agreement should open up the world's $600bn-a-year industry.

Dealers also reflected on weekend press reports suggesting BT is planning a fresh attempt to get clearance from the government to take full control of Cellnet, the mobile phones operator it owns with **Securicor**. Shares in the latter *gained 8* to 311½p.

Last week's speculation that **Williams Holdings** was to buy **Chubb Securities**, talk later confirmed with an agreed bid for the UK alarms and locks company, appears to have taken an unexpected toll on the industrial conglomerate.

Williams shares fell heavily on the talk and declined further following the offer with analysts *uneasy about the terms of* the offer.

Yesterday came the consequences of that retreat when the stock was ejected from the FTSE 100 index to be replaced by Centrica. The shares eased 1¼ to 299p, having traded 8.7m.

FT 30 INDEX

	Feb 17	Feb 14	Feb 13	Feb 12	Feb 11	Yr ago	*High	*Low
FT 30	2845.8	2856.2	2837.8	2827.8	2839.5	2734.5	2865.2	2668.8
Ord. div. yield	4.04	3.97	4.06	4.07	4.07	3.85	4.22	3.78
P/E ratio net	17.20	17.52	17.53	17.47	17.51	17.08	17.55	15.80
P/E ratio nil	16.99	17.31	17.36	17.31	17.34	16.86	17.38	15.71

FT 30 since compilation: high 2865.2 19/04/96, low 49.4 26/06/40. Base Date: 1/7/35.

FT 30 hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2856.4	2849.8	2844.0	2845.7	2845.4	2846.2	2845.8	2842.3	2843.7	2856.4	2841.1

	Feb 17	Feb 14	Feb 13	Feb 12	Feb 11	Yr ago
SEAQ bargains	49,036	48,855	48,111	47,304	48,221	31,118
Equity turnover (£m)†	-	647.1	779.7	747.6	759.6	1361.7
Equity bargains†	-	14,491	13,244	14,000	15,187	37,902
Shares traded (mil)†	-	257.2	236.2	303.2	305.8	499.8

†Excluding intra-market and overseas turnover.

	Feb 17	Feb 14	Feb 13	Feb 12	Feb 11	Yr ago	*High	*Low
FTSE AIM	1129.6	1137.5	1128.7	1130.3	1128.4	1032.9	1140.4	985.7

 *For 1996/97.

■ London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	704	Total Highs	185	Total contracts	47,136
Total Falls	505	Total Lows	30	Calls	35,932
Same	1,287			Puts	11,204

Feb 17 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FTSE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	4322.0	4325.0	-7.0	4335.0	4306.0	8271	60558
Jun	4335.0	4346.0	-6.5	4351.0	4335.0	663	6306
Sep	-	4372.0	-6.0	-	-	0	1901

■ FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	-	4610.0	-	-	-	0	6436

■ FTSE 100 INDEX OPTION (LIFFE) (*4338) £10 per full index point

	4150 C	4150 P	4200 C	4200 P	4250 C	4250 P	4300 C	4300 P	4350 C	4350 P	4400 C	4400 P	4450 C	4450 P	4500 C	4500 P
Feb	[illegible]															
Mar	[illegible]															
Apr	[illegible]															
May	[illegible]															
Jun†	[illegible]															

Calls 25,171 Puts 2,742

■ EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

	4175 C	4175 P	4225 C	4225 P	4275 C	4275 P	4325 C	4325 P	4375 C	4375 P	4425 C	4425 P	4475 C	4475 P	4525 C	4525 P
Feb	[illegible]															
Mar	[illegible]															
Apr	[illegible]															
Jun	[illegible]															
Sept	[illegible]															

Calls 4,452 Puts 3,408 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1996/97 High	1996/97 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
§	F.P.	8.97	180	128½	†C&B Publishing	175		-	-	-	-
§	F.P.	3.25	3½	3	†Caldore Group	3¼		-	-	-	-
§	F.P.	2.00	1½	½	†Do Warrants	1¼	+¼	-	-	-	-
75½	F.P.	2,887	77½	55	Centrica	65¼		-	-	-	-
§100	F.P.	16.5	295	171	†GB Railways	188½	+10	-	-	-	-
§	F.P.	5.53	4	3¼	†John Lewis	4		-	-	-	21.4
§100	F.P.	24.7	123½	97½	Prelude Tst	118½		-	-	-	-
§*	F.P.	1.77	51	22½	Do Warrants	42½		-	-	-	-
§100	F.P.	6.45	105	99	Tea Plantations	103	-½	-	-	-	-
§	F.P.	0.38	30½	24½	Do Warrants	30½		-	-	-	-
§	F.P.	-	128½	122½	Technoplast	128		-	-	-	-
§	F.P.	5.64	24½	24½	†Zicor Mining	24½		-	-	-	-

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

FT GOLD MINES INDEX

	Feb 14	% chg on day	Feb 13	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (33)	1770.55	+1.0	1752.88	2408.69	1.90	-	2405.53	1674.81
■ Regional Indices								
Africa (14)	*2080.63*	*+0.5*	*2070.81*	*3232.31*	*4.38*	*30.71*	*3325.57*	*1918.45*
Australasia (7)	2018.30	-1.2	2043.61	2738.49	2.49	21.98	2861.03	1941.72
North America (12)	1654.90	+1.7	1627.32	2115.04	0.79	61.56	2134.81	1550.58

 Figures in brackets show number of companies. Basis US Dollars. Base Value: 1000.00 31/12/92. † Partial. Latest prices were unavailable for this edition.

TRADING VOLUME

■ **Major Stocks Yesterday**

	Vol. 000s	Closing price	Day's change
3i†	[illegible]		
ASDA Group†	[illegible]		
Abbey National†	[illegible]		
Airtours	[illegible]		
Albert Fisher	[illegible]		
Allied Domecq†	[illegible]		
Anglian Water	[illegible]		
Argos†	[illegible]		
Arjo Wiggins	[illegible]		
Assoc. Brit. Foods†	[illegible]		
Assoc. Brit. Ports	[illegible]		
BAA†	[illegible]		
BAT Inds.†	[illegible]		
BBA	[illegible]		
BICC	[illegible]		
BOC†	[illegible]		
BG†	[illegible]		
BP†	[illegible]		
BPB	[illegible]		
BSkyB†	[illegible]		
BT†	[illegible]		
BTR†	[illegible]		
Bank of Scotland†	[illegible]		
Barclays†	[illegible]		
Bass†	[illegible]		
Blue Circle†	[illegible]		
Booker	[illegible]		
Boots†	[illegible]		
Britannic	[illegible]		
Brit. Aerospace†	[illegible]		
British Airways†	[illegible]		
British Biotech	[illegible]		
British Energy	[illegible]		
British Land†	[illegible]		
British Steel†	[illegible]		
Burmah Castrol†	[illegible]		
Burton†	[illegible]		
Cable & Wire†	[illegible]		
Cadbury Schweppes†	[illegible]		
Caradon	[illegible]		
Carlton Comms.†	[illegible]		
Centrica†	[illegible]		
Chubb	[illegible]		
Coats Viyella	[illegible]		
Comm. Union†	[illegible]		
Compass	[illegible]		
Cookson	[illegible]		
Courtaulds	[illegible]		
Dalgety	[illegible]		
De La Rue	[illegible]		
Dixons†	[illegible]		
EMAP	[illegible]		
EMI†	[illegible]		
Electrocomps	[illegible]		
Eng China Clays	[illegible]		
Enterprise Oil†	[illegible]		
FKI	[illegible]		
Foreign & Col. I.T.	[illegible]		
Gen. Accident†	[illegible]		
General Elect.†	[illegible]		
Glaxo Wellcome†	[illegible]		
Glynwed	[illegible]		
Granada†	[illegible]		
Grand Met.†	[illegible]		
GUS†	[illegible]		
Greenalls	[illegible]		
GRE†	[illegible]		
GKN†	[illegible]		
Guinness†	[illegible]		
HSBC (75p shrs)†	[illegible]		
Hammerson	[illegible]		
Hanson†	[illegible]		
Harrisons Crosfield	[illegible]		
Hays†	[illegible]		
Hillsdown	[illegible]		
Hyder	[illegible]		
IMI	[illegible]		
ICI†	[illegible]		
Imperial Tobacco†	[illegible]		
Inchcape	[illegible]		
Johnson Matthey	[illegible]		
Kingfisher†	[illegible]		
Kwik Save	[illegible]		
Ladbroke†	[illegible]		
Land Securities†	[illegible]		
Laporte	[illegible]		
Legal & General†	[illegible]		
Lloyds TSB†	[illegible]		
LASMO†	[illegible]		
Lonrho	[illegible]		
LucasVarity†	[illegible]		
MEPC	[illegible]		
MFI	[illegible]		
Marks & Spencer†	[illegible]		
Mercury Asset Mgmt	[illegible]		
Morrison (Wm.)	[illegible]		
NFC	[illegible]		
NatWest Bank†	[illegible]		
National Grid†	[illegible]		
National Power†	[illegible]		
Next†	[illegible]		
Northern Foods	[illegible]		
Orange†	[illegible]		
Pearson†	[illegible]		
P & O†	[illegible]		
Pilkington	[illegible]		
PowerGen†	[illegible]		
Premier Farnell	[illegible]		
Provident Financial	[illegible]		
Prudential†	[illegible]		
REXAM	[illegible]		
RMC†	[illegible]		
RTZ†	[illegible]		
Racal	[illegible]		
Railtrack†	[illegible]		
Rank Group†	[illegible]		
Reckitt & Colman†	[illegible]		
Redland†	[illegible]		
Reed Intl.†	[illegible]		
Rentokil Initial†	[illegible]		
Reuters†	[illegible]		
Rolls Royce†	[illegible]		
Royal & Sun Alliance†	[illegible]		
Royal Bk Scotland†	[illegible]		
Safeway†	[illegible]		
Sainsbury†	[illegible]		
Schroders†	[illegible]		
Scottish & New†	[illegible]		
Scot. Hydro-Elect.	[illegible]		
Scottish Power†	[illegible]		
Sears	[illegible]		
Securicor	[illegible]		
Sedgwick	[illegible]		
Severn Trent†	[illegible]		
Shell Transport†	[illegible]		
Siebe†	[illegible]		
Slough Ests	[illegible]		
Smith (WH)	[illegible]		
Smith & Nephew†	[illegible]		
SmithKline Beecham†	[illegible]		
Smiths Inds.†	[illegible]		
Southern Elec†	[illegible]		
South West Water	[illegible]		
Stagecoach	[illegible]		
Standard Chartd.†	[illegible]		
Storehouse	[illegible]		
T&N	[illegible]		
TI Group†	[illegible]		
Tarmac	[illegible]		
Tate & Lyle†	[illegible]		
Taylor Woodrow	[illegible]		
TeleWest	[illegible]		
Tesco†	[illegible]		
Thames Water†	[illegible]		
Thorn	[illegible]		
Tomkins†	[illegible]		
Unigate	[illegible]		
Unilever†	[illegible]		
United Biscuits	[illegible]		
Utd. News & Media†	[illegible]		
United Utilities†	[illegible]		
Vodafone†	[illegible]		
WPP	[illegible]		
Wessex Water	[illegible]		
Whitbread†	[illegible]		
Williams Hldgs.†	[illegible]		
Willis Corroon	[illegible]		
Wimpey (George)	[illegible]		
Wolseley†	[illegible]		
Yorkshire Elect.†	[illegible]		
Yorkshire Water	[illegible]		
Zeneca†	[illegible]		

Based on trading volume for a selection of major securities dealt through the SEAQ system yesterday until 4.30pm. † Indicates an FTSE 100 index constituent. Trades of one million or more are rounded down. Source: Extel, part of FT Information.

FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	Feb 17	Day's chge%	Feb 14	Feb 13	Feb 12	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	4337.8	-0.1	4341.0	4327.1	4304.3	3744.3	3.60	2.11	16.42	7.57	1817.99
FTSE 250	4606.5	....	4606.0	4586.7	4574.5	4190.0	3.38	1.51	24.51	9.01	1891.90
FTSE 250 ex IT	4643.5	....	4643.1	4623.2	4612.4	4203.7	3.47	1.53	23.52	8.85	1911.60
FTSE 350	2140.9	-0.1	2142.0	2134.7	2124.7	1868.3	3.56	1.99	17.63	3.83	1833.19
FTSE 350 Higher Yield	2056.9	-0.1	2059.8	2054.7	2049.3	1868.0	4.65	1.87	14.38	3.05	1485.58
FTSE 350 Lower Yield	2232.1	....	2231.4	2221.8	2206.5	1873.6	2.48	2.22	22.71	4.66	1571.34
FTSE SmallCap	2340.96	+0.1	2338.92	2335.05	2330.05	2043.50	2.91	1.66	25.92	4.57	1959.78
FTSE SmallCap ex IT	2348.72	+0.1	2347.25	2344.08	2341.23	2021.41	3.07	1.74	23.44	4.97	1980.99
FTSE All-Share	2113.17	....	2114.12	2107.21	2097.69	1843.95	3.51	1.97	18.08	3.81	1836.95

■ FTSE Actuaries Industry Sectors

	Feb 17	Day's chge%	Feb 14	Feb 13	Feb 12	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 MINERAL EXTRACTION(21)	4057.11	+0.6	4033.05	4063.61	4037.77	3235.58	3.67	2.15	15.84	15.36	1785.13
12 Extractive Industries(5)	*3881.54*	*+0.8*	*3851.09*	*3878.32*	*3846.33*	*4179.76*	*4.17*	*2.68*	*11.20*	*0.00*	*1156.89*
15 Oil, Integrated(3)	4196.14	+0.5	4173.49	4209.10	4178.40	3286.07	3.88	2.08	15.50	20.17	1899.07
16 Oil Exploration & Prod(13)	3527.65	+0.8	3499.50	3501.45	3512.99	2223.42	1.47	1.90	44.78	0.00	2138.73
20 GEN INDUSTRIALS(273)	1985.12	-0.3	1991.51	1986.81	1985.30	2022.51	3.68	1.87	17.23	1.97	1111.79
21 Building & Construction(35)	1355.57	+0.4	1349.56	1350.34	1347.66	1060.58	3.03	1.62	25.49	1.19	1158.56
22 Building Matls & Merchs(31)	1862.50	-0.1	1864.24	1859.83	1869.07	1903.86	4.18	1.39	21.53	0.44	962.84
23 Chemicals(26)	2320.53	-0.2	2325.18	2306.13	2326.83	2409.42	4.50	1.42	19.62	0.56	1126.73
24 Diversified Industrials(17)	1451.05	-1.0	1465.68	1471.93	1461.99	1748.44	4.45	2.59	10.87	4.02	841.58
25 Electronic & Elect Equip(39)	2289.27	-0.5	2299.90	2295.97	2294.68	2321.25	3.41	1.34	27.27	0.80	1218.24
26 Engineering(71)	*2516.85*	*-0.3*	*2524.68*	*2513.54*	*2488.84*	*2267.24*	*3.25*	*2.34*	*16.43*	*3.67*	*1559.53*
27 Engineering, Vehicles(13)	2794.34	-0.9	2820.68	2800.60	2806.71	2602.76	3.86	1.71	18.94	0.25	1476.03
28 Paper, Pckg & Printing(27)	2496.51	+0.7	2479.20	2478.53	2476.74	2673.61	4.17	1.79	16.75	0.00	1064.91
29 Textiles & Apparel(14)	1087.24	+0.1	1085.93	1081.83	1079.26	1480.29	6.46	1.28	15.14	0.44	688.20
30 CONSUMER GOODS(85)	4033.44	-0.4	4049.25	3999.43	3950.56	3642.73	3.59	1.86	18.74	8.23	1528.63
32 Alcoholic Beverages(7)	2672.62	....	2672.36	2650.06	2632.51	2807.92	4.83	1.87	13.85	31.28	1001.11
33 Food Producers(25)	2852.57	+1.5	2811.47	2762.55	2731.67	2552.79	3.82	1.80	18.23	5.00	1322.60
34 Household Goods(17)	2799.64	....	2800.97	2773.82	2723.07	2602.91	3.59	2.23	15.58	1.06	1130.36
36 Health Care(16)	2254.85	-1.5	2289.06	2260.21	2223.40	1958.31	2.61	1.89	25.33	3.40	1395.31
37 Pharmaceuticals(18)	*6279.12*	*-1.3*	*6358.63*	*6262.53*	*6181.18*	*5222.46*	*2.70*	*1.73*	*26.75*	*0.00*	*2169.71*
38 Tobacco(2)	4363.52	....	4362.93	4381.35	4380.61	4780.64	5.94	2.13	9.88	0.00	1123.68
40 SERVICES(273)	2676.75	+0.1	2674.24	2667.40	2651.93	2330.66	2.82	2.01	22.06	7.11	1423.33
41 Distributors(30)	2816.74	+0.2	2811.25	2794.44	2787.25	2609.12	3.01	2.00	20.75	0.46	1059.14
42 Leisure & Hotels(31)	3498.27	+1.1	3459.64	3455.06	3439.54	2878.18	2.49	2.06	24.41	18.16	1913.63
43 Media(44)	4362.43	+0.1	4358.10	4357.02	4334.08	3834.41	2.18	2.12	27.03	7.82	1600.85
44 Retailers, Food(15)	1960.04	....	1959.72	1956.28	1938.44	1925.16	4.04	2.31	13.41	4.28	1278.94
45 Retailers, General(53)	2094.98	+0.1	2091.98	2073.33	2080.53	1935.58	3.11	2.02	19.92	6.94	1227.91
47 Breweries, Pubs & Rest.(22)	3398.98	-0.6	3417.87	3420.09	3421.43	2983.04	3.20	2.10	18.64	16.84	1676.56
48 Support Services(56)	3015.44	....	3015.52	3011.43	2967.20	2060.09	1.67	2.44	30.77	1.16	1947.44
49 Transport(22)	2783.29	-0.2	2788.24	2789.48	2780.74	2304.05	3.45	1.26	28.81	6.35	1192.40
60 UTILITIES(30)	2739.55	-0.3	2748.08	2743.44	2735.64	2452.65	4.88	1.59	16.10	5.11	1244.93
62 Electricity(9)	2888.19	....	2887.27	2897.94	2898.31	2780.66	5.93	2.18	9.67	22.08	1595.27
64 Gas Distribution(2)	1613.31	-3.1	1665.46	1611.63	1608.27	1603.76	7.56	‡	‡	0.00	882.76
66 Telecommunications(8)	2318.18	....	2319.13	2320.29	2305.68	2003.59	3.60	1.56	22.17	0.00	1094.38
68 Water(11)	2513.42	+0.2	2508.59	2517.94	2529.04	2109.37	5.92	2.31	9.13	0.00	1453.68
69 NON-FINANCIALS(682)	2153.55	-0.1	2155.48	2148.43	2135.89	1942.91	3.60	1.89	18.44	4.77	1682.45
70 FINANCIALS(106)	3964.28	+0.1	3960.19	3946.98	3949.56	2974.75	3.40	2.40	15.32	1.08	1750.33
71 Banks, Retail(8)	*5825.44*	*+0.3*	*5807.58*	*5783.77*	*5782.15*	*4244.77*	*3.19*	*2.75*	*14.24*	*0.00*	*1949.96*
73 Insurance(18)	1771.46	-0.4	1778.32	1764.19	1777.24	1417.36	4.72	2.33	11.36	1.86	1374.23
74 Life Assurance(7)	4622.89	-0.4	4642.55	4650.20	4652.51	3544.82	3.36	1.78	20.85	0.00	1966.49
77 Other Financial(29)	3172.04	....	3170.85	3170.89	3185.17	2553.69	3.19	2.04	19.17	1.32	1856.04
79 Property(44)	1868.32	....	1858.69	1866.19	1858.30	1454.15	3.42	1.33	27.56	2.57	1182.51
80 INVESTMENT TRUSTS(127)	3342.91	+0.1	3340.65	3331.42	3310.92	3135.56	2.14	1.12	51.86	5.79	1186.21
89 FTSE All-Share(915)	2113.17	....	2114.12	2107.21	2097.69	1843.95	3.51	1.97	18.08	3.81	1836.95
FTSE Fledgling	1326.63	+0.1	1325.67	1323.16	1317.45	1148.97	2.92	0.54	78.93	2.67	1414.41
FTSE Fledgling ex IT	*1347.77*	....	*1347.28*	*1344.88*	*1339.77*	*1146.20*	*3.19*	*0.48*	*80.00†*	*2.70*	*1436.19*

■ Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FTSE 100	4336.3	4325.8	4321.0	4322.6	4329.7	4331.1	4332.1	4328.7	4338.2	4338.4	4319.1
FTSE 250	4606.5	4609.8	4607.1	4606.6	4608.3	4606.5	4605.9	4606.1	4605.6	4609.9	4605.0
FTSE 350	2140.5	2136.5	2134.3	2134.9	2137.6	2138.2	2138.6	2137.2	2140.9	2141.0	2133.6

Time of FTSE 100 Day's high: 4:08 PM Day's low: 9:55 AM. FTSE 100 1996/97 High: 4341 (14/02/97) Low: 3632.3 (16/07/96).

■ FTSE 350 Industry baskets

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	Close	Previous	Change
Bldg & Cnstrcn	1299.0	1301.7	1301.2	1307.1	1307.1	1306.6	1305.8	1305.7	1305.6	1305.5	1298.7	+6.8
Pharmaceuticls	6253.4	6233.6	6188.8	6200.1	6195.1	6197.2	6187.2	6179.0	6196.0	6193.4	6273.6	-80.2
Water	2499.9	2499.4	2499.3	2500.0	2502.5	2503.1	2504.0	2504.0	2506.3	2506.3	2501.3	+5.0
Banks, Retail	5865.5	5844.7	5852.3	5851.8	5892.8	5895.9	5890.8	5891.9	5889.7	5899.8	5881.7	+18.1

For further information on the FTSE Actuaries Share Indices please contact FTSE International on 0171 448 1810. The FTSE Actuaries Share Indices are calculated in accordance with a standard set of ground rules established by FTSE International in conjunction with the Faculty of Actuaries and the Institute of Actuaries. "FT-SE" and "Footsie" are trade marks of the London Stock Exchange and The Financial Times and are used by FTSE International under licence. † Sector P/E ratios greater than 80 and net covers greater than 30 are not shown. ‡ Values are negative. Deletion: British Gas (64) & (FTSE 100); Williams (FTSE 100); Brake Brothers (FTSE 250); Insert: BG (64) & (FTSE 100); Centrica (64) & (FTSE 100); Williams (FTSE 250); Brake Brothers (FTSE SmallCap).

FTSE INTERNATIONAL

CONTRACTS & TENDERS

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Feb 17 / Sch)

BELGIUM/LUXEMBOURG (Feb 17 / Frs.)

CZECH REP (Feb 17 / Koruna)

DENMARK (Feb 17 / Kr)

FINLAND (Feb 17 / Mka)

FRANCE (Feb 17 / Frs.)

		+/-	High	Low	Yld	P/E
AGF	197	+1.60	206.80	128.20	1.9	24.8
Accor	780	+30	802	606	2.8	24.1
AirLiq	916	+8	938	759	1.5	25.1
Alcatel	601	+14	608	388	1.8	38.9
ArjPri	1,650	—	1,749	1,100	1.4	—
Axa	374	−1.60	381.50	262.80	2.0	22.5
BIC	934	+2	941	529	1.1	40.8
BNP	244.90	+7.90	246.90	171	1.5	28.0
Bncair	703	−12	745	487.20	2.1	—
BFaure	243	−4.80	254.80	146	1.4	44.4
Bongrn	2,173	+5	2,228	1,895	2.8	12.9
Bygues	558	+6	594	444.60	4.8	—
CEP Cm	400	—	499	340	3.8	—
CSP	1,628	+28	1,673	1,074	3.4	—
CLFDex	523	+2	533	381	2.7	13.0

GERMANY (Feb 17 / Dm.)

GREECE (Feb 17 / Drachma)

ITALY (Feb 17 / Lire)

NETHERLANDS (Feb 17 / Fls.)

NORWAY (Feb 17 / Kroner)

POLAND (Feb 17 / Zloty)

PORTUGAL (Feb 17 / Escudo)

SPAIN (Feb 17 / Pts.)

SWEDEN (Feb 17 / Kronor)

SWITZERLAND (Feb 17 / Frs.)

TURKEY (Feb 17 / Tk Lira)

PACIFIC

JAPAN (Feb 17 / Yen)

AUSTRALIA (Feb 17 / AustS)

HONG KONG (Feb 17 / H.K.S)

INDONESIA (Feb 17 / Rupiah)

MALAYSIA (Feb 17 / MYR)

NEW ZEALAND (Feb 17 / NZ S)

SINGAPORE (Feb 17 / S$)

SOUTH KOREA (Feb 17 / Won)

TAIWAN (Feb 17 / TW S)

THAILAND (Feb 17 / Baht)

AFRICA

SOUTH AFRICA (Feb 17 / Rand)

NORTH AMERICA

CANADA

TORONTO (Feb 17 / Can S)

4 pm close

MONTREAL (Feb 17 / Can S)

4 pm close

Prices supplied by Extel, part of FT Information.

NOTES – Prices on this page are as quoted on the individual exchanges and are last traded prices. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. † Priced in US $.

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INDICES

	Feb 17	Feb 14	Feb 13	1996/97 High	1996/97 Low
Argentina					
General(29/12/77)	(u)	20722.77	20841.22	20841.20 13/2/97	15297.20 22/8/96
Australia					
All Ordinaries(1/1/80)	2483.2	2482.5	2496.4	2496.40 13/2/97	2099.10 17/7/96
All Mining(1/1/80)	974.5	969.2	968.6	1118.40 8/5/96	903.80 13/12/96
Austria					
Credit Aktien(30/12/84)	403.43	404.82	404.06	405.00 12/2/97	349.19 6/9/96
Traded Index(2/1/91)	1212.20	1213.36	1212.03	1213.36 14/2/97	975.27 2/1/96
Belgium					
BEL20(1/1/91)	2101.04	2098.03	2098.91	2101.04 17/2/97	1574.98 2/1/96
Brazil					
Bovespa(29/12/83)	(u)	87000.0	87649.0	87649.00 13/2/97	43901.00 2/1/96
Canada					
Metals Minls♦(1975)	(u)	5470.98	5482.58	5824.60 8/5/96	4687.47 16/1/96
Composite♦(1975)	(u)	6214.30	6225.80	6225.80 13/2/97	4738.70 15/1/96
Portfolio§§(4/1/83)	(u)	3118.15	3138.10	3138.10 13/2/97	2327.39 12/1/96
Chile					
IGPA Gen♥(31/12/80)	(u)	5344.67	5360.95	5804.33 8/1/96	4868.17 18/12/96
Denmark					
CopenhagenSE(3/1/83)	540.95	539.02	535.65	540.95 17/2/97	368.40 2/1/96
Finland					
HEX General(28/12/90)	2863.42	2866.59	2855.97	2866.59 14/2/97	1651.67 10/1/96
France					
SBF 250(31/12/90)	1762.30	1759.75	1761.06	1762.30 17/2/97	1250.16 2/1/96
CAC 40(31/12/87)	2634.48	2627.42	2628.41	2634.48 17/2/97	1897.85 11/1/96
Germany					
FAZ Aktien(31/12/58)	1113.77	1120.05	1113.97	1120.05 14/2/97	818.56 2/1/96
Commerzbank(1/12/53)	3234.20	3254.90	3235.40	3254.90 14/2/97	2370.10 2/1/96
DAX‡(30/12/87)	3232.57	3248.18	3229.48	3248.18 14/2/97	2284.86 2/1/96
Greece					
Athens SE(31/12/80)	1270.74	1238.44	1230.20	1270.74 17/2/97	872.99 7/8/96
Hong Kong					
Hang Seng(31/7/64)	13144.62	13113.26	13239.95	13868.20 20/1/97	10204.90 2/1/96
India					
BSE Sens.(1978)	3580.29	3521.99	3492.65	4069.26 18/6/96	2745.06 4/12/96
Indonesia					
Jakarta Comp.(10/8/82)	701.76	704.47	707.36	707.36 13/2/97	512.48 2/1/96
Ireland					
ISEQ Overall(4/1/88)	3001.64	3016.18	3002.23	3016.18 14/2/97	2234.61 2/1/96
Italy					
Banca Comm Ital(1972)	773.87	785.63	781.90	787.71 10/2/97	572.21 27/3/96
MIB General(2/1/97)	1162.0	1180.0	1174.0	1187.00 10/2/97	981.00 2/1/97
Japan					
Nikkei 225(16/5/49)	18750.65	18722.00	18688.06	22666.80 26/6/96	17303.70 10/1/97
Nikkei 300(1/10/82)	267.81	267.30	265.51	319.70 25/6/96	251.04 27/1/97
Topix(4/1/68)	1393.74	1389.88	1382.79	1722.13 26/6/96	1326.60 27/1/97
2nd Section(4/1/68)	1729.69	1737.77	1728.98	2251.48 2/7/96	1718.23 10/2/97
Malaysia					
KLSE Comp.(4/4/86)	1252.48	1246.91	1259.10	1259.10 13/2/97	983.18 2/1/96
Mexico					
IPC(Nov 1978)	(u)	3826.77	3778.46	3826.77 14/2/97	2738.36 8/3/96
Netherland					
CBS TtlRtnGen(End 83)	851.8	838.3	834.4	851.80 17/2/97	539.50 2/1/96
CBS All Shr(End 83)	500.0	492.0	489.7	500.00 17/2/97	326.70 2/1/96
New Zealand					
Cap. 40(1/7/86)	2327.84	2323.18	2339.15	2440.21 20/1/97	2025.14 7/6/96
Norway					
Oslo SE(Ind(2/1/83)	1886.37	1870.81	1848.70	1886.37 17/2/97	1259.86 30/1/96
Philippines					
Manila Comp(2/1/85)	3314.84	3322.30	3335.73	3447.80 3/2/97	2578.97 2/1/96
Portugal					
BVL 30(4/1/93)	2606.73	2589.76	2580.88	2606.73 17/2/97	1602.81 2/1/96
Singapore					
SES All-Sing(2/4/75)	573.03	572.33	570.02	610.37 5/2/96	503.78 21/10/96
South Africa					
JSE Gold(28/9/78)	1418.7♥	1395.1	1390.8	2039.40 29/5/96	1339.08 3/2/97
JSE Ind.(28/9/78)	8315.5♥	8305.3	8332.8	8739.30 25/1/96	7558.90 17/12/96
South Korea					
KoreaCompEx**(4/1/80)	712.93	721.00	716.71	986.84 7/5/96	811.05 7/1/97
Spain					
Madrid SE(30/12/85)	481.95	480.66	477.55	481.95 17/2/97	323.75 11/1/96
Sweden					
AffarsvarldsGen(1/2/37)	(u)	2651.4	2661.2	2661.20 13/2/97	1708.69 22/1/96
Switzerland					
Swiss Bk Ind(31/12/58)	(u)	2152.44	2140.29	2152.44 14/2/97	1516.19 17/1/96
SBC General(1/4/87)	(u)	1494.41	1486.08	1494.41 14/2/97	1114.47 26/1/96
Taiwan					
WeightedPr.**(30/6/66)	7687.18	7499.51	7536.28	7687.18 17/2/97	4690.22 8/2/96
Thailand					
Bangkok SET(30/4/75)	708.20	713.48	698.06	1415.04 6/2/96	698.06 13/2/97
Turkey					
IMKB Nat 100(1986)	1554.00	1555.00	1599.00	1700.00 27/1/97	388.00 2/1/96
WORLD					
MS Capital Int(1/1/70)	843.5*	844.6	844.7	848.10 14/2/97	725.90 15/1/96
CROSS-BORDER					
Eurotrack 100(26/10/90)	2165.29	2158.67	2158.38	2165.29 17/2/97	1504.40 11/1/96
Euro Top-100(26/6/90)	1828.43	1824.62	1819.89	1828.43 17/2/97	1333.81 11/1/96
HSBC JC Drgn(31/12/88)	(u)	419.10	421.80	429.46 20/1/97	344.19 2/1/96
ING Brngs Emrg(7/1/92)	178.02	177.86	178.07	178.07 13/2/97	147.35 2/1/96

US INDICES

Dow Jones	Feb 14	Feb 13	Feb 12	1996/97 High	1996/97 Low	Since compilation High	Since compilation Low
Industrials	6988.96	7022.44	6961.63	7022.44 (13/2/97)	5032.94 (10/1/96)	7022.44 (13/2/97)	41.22 (8/7/32)
Home Bonds	103.50	103.38	103.29	108.09 (14/2/96)	100.99 (15/7/96)	109.77 (18/10/93)	54.99 (1/10/81)
Transport	2359.55	2363.24	2348.91	2363.24 (13/2/97)	1882.71 (18/1/96)	2363.24 (13/2/97)	13.23 (8/7/32)
Utilities	232.04	233.16	233.09	240.85 (22/1/97)	204.86 (30/7/96)	256.46 (31/8/93)	16.53 (8/7/32)

DJ Ind. Day's high 7074.77 (7074.39) Low 6935.85 (6924.30) (Theoretical♠)
Day's high 7024.75 (7040.91) Low 6983.95 (6960.48) (Actual♠)

Standard and Poors	Feb 14	Feb 13	Feb 12	1996/97 High	1996/97 Low	Since compilation High	Since compilation Low
Composite‡	808.48†	811.82	802.77	811.82 (13/2/97)	598.48 (10/1/96)	811.82 (13/2/97)	4.40 (1/6/32)
Industrials♥	942.22	947.33	938.92	947.33 (13/2/97)	702.07 (15/1/96)	947.33 (13/2/97)	3.52 (30/6/32)
Financial	94.99	94.86	92.51	94.99 (14/2/97)	58.67 (10/1/96)	94.99 (14/2/97)	7.13 (4/9/74)
NYSE Comp.	423.48	424.42	419.88	424.42 (13/2/97)	321.41 (10/1/96)	424.42 (13/2/97)	4.64 (25/4/42)
Amex Comp.	594.15	595.40	593.10	617.61 (22/5/96)	524.20 (16/7/96)	617.61 (22/5/96)	524.20 (16/7/96)
NASDAQ Comp	1367.19	1370.81	1358.96	1388.06 (22/1/97)	988.57 (15/1/96)	1388.06 (22/1/97)	54.87 (3/10/74)

RATIOS

	Feb 14	Feb 7	Jan 31	Year ago
Dow Jones Ind. Div. Yield	1.92	1.95	1.96	2.16
	Feb 12	Feb 5	Jan 29	Year ago
S & P Ind. Div. yield	1.73	1.78	1.78	1.88
S & P Ind. P/E ratio	24.83	24.09	23.96	19.86

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Close price	Change on day
Micron	5,957,200	33⅞	+1
PepsiCo	5,224,500	32¼	+¼
Banc One	4,780,200	45	+½
Stone Cont	4,674,700	12¾	−⅛
Merck	4,006,000	97⅛	−2⅛
Utd Hlth	3,930,200	54⅜	+3¾
Mercury Fin	3,845,700	2¼	−⅛
H Packard	3,671,800	50⅝	−¼
IBM	3,423,800	145⅞	−1
First USA	3,059,200	50¾	+⅜

TRADING ACTIVITY

● Volume (million)

	Feb 14	Feb 13	Feb 12
New York SE	480.139	584.368	583.552
Amex	17.839	19.531	23.914
NASDAQ	600.956	744.768	687.544
NYSE			
Issues Traded	3,341	3,332	3,339
Rises	1,339	1,723	1,764
Falls	1,194	826	760
Unchanged	808	783	815
New Highs	298	343	242
New Lows	14	14	25

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
S&P 500							
Mar	814.00	814.15	-	817.45	811.75	77,570	183,234
Jun	823.00	821.65	-	823.00	819.50	1,558	11,780
Nikkei 225							
Mar	18780.0	18720.0	−10.0	18910.0	18590.0	27,339	219,712
Jun	18770.0	18710.0	−20.0	18860.0	18590.0	2,317	49,246

Open interest figures for previous day.

INDEX FUTURES

	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
CAC-40 (200 x Index)							
Feb	2625.0	2642.0	+11.0	2649.0	2618.0	6,954	27,871
Mar	2632.5	2648.5	+11.0	2647.5	2627.5	362	23,403
DAX							
Mar	3246.0	3272.5	+10.5	3272.5	3237.5	18,069	-
Jun	3259.5	3287.0	+9.5	3286.5	3255.5	885	-
OMX							
Feb	2075.00	2090.00	+26.00	2092.00	2069.00	3,254	18,929
Mar	2077.25	2094.75	+24.75	2095.50	2073.00	992	9,886
SOFFEX							
Feb	4470.0	4528.5	+61.5	4537.0	4464.0	7,904	21,699
Mar	4474.0	4533.4	+62.0	4542.5	4471.0	3,403	7,334

** Sat Feb 15: Taiwan Weighted Price 7598.93; Korea Comp Ex 722.32. Base values of all indices are 100 except Australia All Ord and Mining – 500; Austria Traded, BEL20, HEX Gen., MIB Gen., BVL30, SBF250, CAC40, Euro Top-100, ISEQ Overall, Toronto Comp./Metals & Minerals and DAX – all 1,000; JSE Gold – 255.7; JSE 20 Industrials – 264.3; IMKB Nat 100 – 1; NYSE All Common – 50; Standard & Poor's – 10 and Amex Comp – 550. §§ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. ‡ SBS/DAX after-hours index: Feb 17 - 3260.?3 +11.13 † Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♠ The DJ Ind. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

TOKYO - MOST ACTIVE STOCKS: Monday, February 17, 1997

	Stocks Traded	Closing Prices	Change on day
Nippon Steel Cp	9.0m	335	+3
NKK Corp	8.3m	262	+3
Toshiba Corp	8.1m	750	+28
Fuji Heavy Inds	7.4m	557	+17
Hitachi	6.8m	1160	+10
Mitsubishi Hvy	6.0m	912	+18
Ricoh	5.6m	1470	-30
Eisai	4.4m	2380	
Sumitomo Bank	4.1m	1350	+20
Mitsubishi Elect	3.8m	724	+9

Dollar's climb takes a dozen bourses to all-time highs

EUROPE

The absence of New York on holiday left some leading bourses rudderless for most of the day, but the dollar's relentless climb finally took effect and the day ended with a dozen all-time highs.

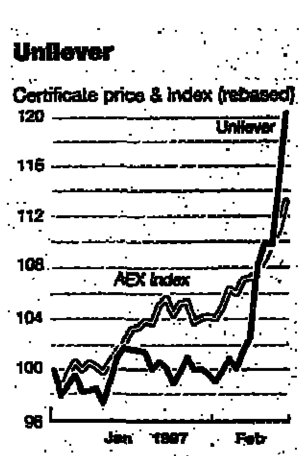
AMSTERDAM surged by 1.7 per cent on the AEX index following another powerful performance by Unilever, backed by strong gains among financial stocks.

Up almost 5 per cent in New York on Friday, the foods-to-detergents giant continued to attract local investors and heavy volume; the shares added Fl 16.20 or 4.6 per cent to Fl 367.20, taking their gains to almost 17 per cent in six sessions.

Last week Unilever announced plans for an $8bn disposal and in the process threw off its image of "fuddy-duddy" management.

The AEX extended its recent run of all-time highs, climbing 12.50 to 731.99, aided by a rise of Fl 3.50 to Fl 133.60 at ABN-Amro and a Fl 1.80 improvement to Fl 72.50 at Fortis Amev.

Gamma rose Fl 1.20 to Fl 100 after Delta Lloyd Bank



moved from "hold" to "buy" on the shares. Norit, the carbon group, surged Fl 6.80 to Fl 34. Vendex moved up Fl 1.30 to Fl 90.60 ahead of today's results statement.

FRANKFURT's Dax index came with a late run in Ibis trading to close 11.13 higher at a new peak of 3,260.30; but turnover, down from DM14.8bn to DM9.7bn, reflected both the US holiday and the ennui which afflicted the German market for most of the day.

The dollar made an early break through the DM1.69 level and, late in the day, pierced DM1.70. The effect that might have had on cyclicals was weakened by profit-taking and some adverse company news; similarly, bunds were weak, and financials uninspired for the bulk of both floor and Ibis trading sessions.

In the end, Bayer led the big blue chips with a rise of DM2.01 or 3 per cent at DM69.99, but Volkswagen dropped DM10.50 or 1.3 per cent to DM810 on Spain's 10-day truck driver strike, and its fears that the assembly line at VW's Wolfsburg plant could be forced to close temporarily if the strike goes on much longer.

Among mid caps, Kloeckner-Werke fell DM5 to DM93.50 after the plastics, machinery and automotive components group said that it had broken even for the year to last September 30.

PARIS traded narrowly but the dull overall outturn – the CAC 40 closed up 7.06 at 2,634.48 – masked a number of sharp movements by individual shares.

Carmakers continued to slide with Renault off FFr3.60 or 2.9 per cent at FFr118.9 and Peugeot retreating FFr12.00 to FFr572. Paribas came off FFr8.00 to FFr397.5 after

FTSE Actuaries Share Indices — THE EUROPEAN SERIES

Feb 17 Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FTSE Eurotrack 100	2157.54	2159.70	2160.78	2161.34	2163.22	2163.66	2165.61	2165.29
FTSE Eurotrack 200	2187.51	2189.87	2189.08	2191.51	2192.99	2194.20	2194.27	2190.84

	Feb 14	Feb 13	Feb 12	Feb 11	Feb 10
FTSE Eurotrack 100	2158.67	2158.38	2143.59	2133.29	2123.68
FTSE Eurotrack 200	2191.24	2183.79	2174.50	2164.68	2156.79

Base value 1000 (26/10/90); High/day: 100 - 2161.18; 200 - 2193.9 Low/day: 100 - 2155.57 200 - 2188.0. † Partial

switching into BNP which jumped FFr7.90 or 3.3 per cent to FFr244.9.

Accor advanced FFr30 or 4 per cent to FFr780 after Société Générale lifted its stake in the hotel giant to more than 5 per cent. Alcatel Alsthom gained FFr14.00 to FFr601 on upbeat broker recommendations.

Goldman Sachs upgraded Rhône Poulenc to "market outperformer" and the shares gained FFr1.80 to FFr195.10. Pechiney hardened FFr2.90 to FFr259.40 after confirming that the second half of 1996 had run into the red.

ZURICH climbed on the dollar, and on derivatives-linked buying ahead of Friday's expiry on the Swiss options and futures exchange (Soffex). The SMI index hit a new peak, 50.4 higher at 4,514.6.

Dollar sensitivity moved a number of internationals, Novartis registered rising SFr17 to SFr1,764 and Nestlé SFr21 to SFr1,649; in this category, SMH bearers leapt SFr35 or 3.7 per cent to SFr982, perhaps also reflecting the watchmaker's joint venture with Calvin Klein.

In firm financials, UBS led with a gain of SFr26 at SFr1,319 ahead of this Friday's results.

STOCKHOLM saw a 1.55 per cent gain in banks after Swedbank and Foreningsbanken said that they were in merger talks, and the Affärsvärlden General index closed 31.5 higher at 2,682.9.

Handelsbanken rose SKr8 to SKr201 after the effective completion of its Stadtshypotek takeover.

S-E-Banken, whose merger talks with Nordbanken collapsed two weeks ago, put on SKr2.50 at SKr75.

BUDAPEST was inspired by company results and rebounded from losses last Friday. The BUX index broke new ground to finish 66.29 higher at 5,586.69.

ATHENS rose 2.6 per cent after a weekend prediction from Greece's national economy and finance minister, Mr Yannos Papantoniou, that inflation would fall to 5 per cent by this summer, and that interest rates would drop to single digits in the next few months. January CPI inflation fell to 6.8 per cent year-on-year from 7.3 per cent in December, and the general index rose 32.30 to 1,270.74.

TEL AVIV followed Sunday's 2.8 per cent gain with another of 2 per cent as foreign and institutional investors continued to anticipate a cut in the discount rate next month. The Mishtanim index rose 5.14 to 265.01.

Expectations of a cut in the discount rate were aroused by Friday's lower-than-expected increase of 0.4 per cent in the January consumer price index.

Written and edited by William Cochrane and Jeffrey Brown

EUROPEAN EQUITIES TURNOVER
Monthly total in local currencies (bn)

Bourse	Oct 1996	Nov 1996	Dec 1996	Jan 1997	US $bn
Belgium	121.08	116.23	118.61	158.37	4.69
Denmark	43.99	31.67	34.31	66.21	10.60
Finland	20.82	21.35	20.76	32.54	6.67
France	244.54	302.37	292.73	356.90	64.58
Germany	184.42	249.49	199.55	260.32	159.02
Italy	51,300	57,868	47,400	131,692	81.85
Netherlands	61.60	58.00	56.10	84.90	46.18
Norway	40.58	42.52	38.72	61.40	9.47
Spain	1,872.79	1,963.28	2,300.86	3,300.98	23.84
Sweden	194.20	176.60	163.45	220.20	30.45
Switzerland	35.03	40.43	36.75	56.25	39.54
UK	73.67	68.14	*	*	*

Volumes represent purchases and sales.
*Figures for December and January not available, due to difficulties arising from the move to the Crest settlement system.
Italian data adjusted to include off-market trading. Some figures may be revised.
Source: NatWest Securities

Continental bourses had a splendid start to 1997, says Mr James Cornish, European strategist at NatWest Securities. The broker has produced figures showing a 49.6 per cent gain in *D-Mark terms* in domestic European bourse turnover for January, reflecting a gain of 7.8 per cent in the underlying share prices and the strength of the US dollar which rose another 6.3 per cent against the German currency. Italy, the only country not to reach record index levels, compensated with an "amazing" 178 per cent surge in business in January as the likelihood increased that Prime Minister Romano Prodi's government would find support in parliament for budget deficit cuts. The next three biggest turnover rises on the month came in Nordic markets with Danish domestic business up 93 per cent, Norway up 58.6 per cent and Finland 56.8 per cent better. Switzerland rose 53.1 per cent, with an index gain of 8.6 per cent.

Miners active in steady Toronto

AMERICAS

TORONTO passed a quiet morning session in the absence of Wall Street, shut for President's Day. Dealers *said the action was nominal* with attendance well below average. "Many traders have taken advantage of the long weekend in the US," said one dealer.

At noon, the 300 composite index was little changed at 6,217.04, up 2.80. Metals and minerals saw some of the best of the early activity. By the noon calculation the sector had put on 0.3 per cent.

Barrick Gold fell C$1.55 or 4 per cent to C$34.40 after *failing to link up with Bre-X* which is developing a big Indonesian gold deposit. Bre-X added 5 cents to C$23.90.

Abitibi-Price, which is merging with Stone-Consolidated, gained 70 cents to C$23. Stone putting on 90 cents to C$23.15.

MEXICO CITY opened lower in thin trading but rallied gently towards the close of the morning session. "It's *a narrow market with Wall* Street shut. The improved sentiment mostly reflects the slight fall for money market rates," said one trader.

At midsession, the IPC index was showing an improvement of 14,610 at 3,841.38.

SAN PAULO was slightly lower at midsession with the Bovespa index trailing by 149 at 86,851. Telebras eased 0.21 per cent to R$95.30 after *the state telecoms group* hinted at plans to tap the US bond market.

CARACAS also edged lower. The IBC index had run up a loss of 0.65 per cent at midsession. It stood at 6,598.87, a decline of 43.35.

Turnover hectic as Taipei scales new heights

ASIA PACIFIC

Shares in **TAIPEI** pushed deeper into new high ground, lifting the weighted index by 1.2 per cent in hectic two-way trading.

The index closed 88.25 higher at 7,687.18. It had *risen by 2.5 per cent in two* days and, in less than two weeks, advanced by 7 per cent to its highest level for more than six years.

Turnover yesterday was hectic at T$130.6bn as both retail and institutional investors bought shares aggressively in the expectation of economic recovery.

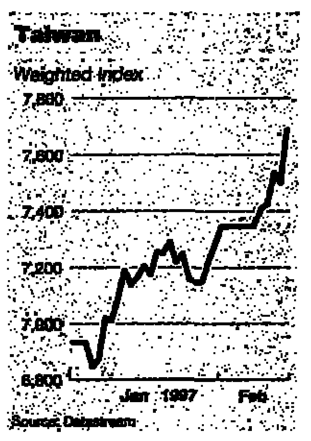
Electronics shares, buoyed partly by the rally for high-tech stocks on Wall Street, led the way up with the sec*tor adding 1.54 per cent.* Asustek jumped T$13 to T$421.

Far East Department Store soared by the daily 7 per cent limit, gaining T$2.60 to T$40.10.

TOKYO extended its winning streak to five days, but a three-day weekend for US-based investors scaled back the volume, and the rate of advance, *writes Jonathan Annells.*

The Nikkei 225 average rose 28.65 to 18,750.65 after moving between 18,653.92 and 18,854.46, the second narrowest trading range of the year so far. Foreign investors were early buyers of blue-chip exporters, but a *mid-session* decline in index futures set off a round of profit-taking in the underlying stocks.

The market nosed ahead by the close on demand for selected high-tech issues and low-priced laggards with



good earnings prospects.

The absence of US investors for the Presidents' Day holiday was a further drag *on the week's customary* slow start, but brokers also noted that investors were growing increasingly wary as the Nikkei average approached the 19,000 point. At that level there was greater willingness on the part of domestic institutions to sell, to lock in even modest profits ahead of the March 31 book-closing.

Volume shrank from 583m shares to an estimated 395m. Advances outnumbered declines by 655 to 416 with 166 unchanged.

The Topix index of all first section stocks rose 3.86 to 1,393.74, and the capital-weighted Nikkei 300 by 0.61 to 267.91.

In London, the ISE/Nikkei 50 index rose 2.11 to 1,449.53.

Nippon Steel was the volume leader, with 9.02m shares traded as the rotation away from market-leading electricals and carmakers into laggards continued. It ended Y3 higher at Y335. Following the same trend, the shipbuilding sector posted *the biggest* advance on the first section, rising by 2.9 per cent.

Mitsubishi Heavy Industries added Y18 to Y912, Kawasaki Heavy Industries Y27 *to Y520, and Ishikawaji*ma-Harima Heavy Industries Y16 to Y446.

News that the oil refining operations of Showa Shell Sekiyu and Mitsubishi Oil are to be merged, to create Japan's largest oil refinery, did little to boost investor appetite for their shares. Showa Shell fell Y8 to Y822, and Mitsubishi Oil by Y15 to Y508. Mitsubishi Oil said on Friday that it expected to make a recurring loss in *1996.*

Profit-taking on eight consecutive advances took Sony Y80 lower to Y9,000, and Toyota down Y30 to Y3,410. But Honda rose Y40 to Y3,690, off an *all-time* high of Y3,740, and Canon ended Y20 firmer at Y2,780.

In Osaka, the OSE average gained 74.87 to 19,532.03 in volume of 66.6m shares.

SEOUL fell steeply on *worries about cross-border ten*sions. Volume was thin and the composite index ended off 9.39 or 1.3 per cent at 712.93, the low for the session.

Brokers said blue chips led the market lower. Samsung Electronics shed Won2,500 to Won56,000 and Posco, the steelmaker, came off Won900 to Won42,700. Kepco, the electricity monopoly, lost Won300 to Won27,600.

BANGKOK moved lower *in spite of buying by mutual* funds operating a market support fund. The SET index fell 5.28 or 0.74 per cent to 708.20 in slim volume of Bt4.4bn. "The mutual funds tended to concentrate on telecoms. It was the banks or finance stocks which were heavily sold on bad loan worries", said one broker.

The finance sector retreated almost 5 per cent. Siam Commercial shed Bt7 to Bt130 and Bangkok Bank lost Bt1 to Bt167.

BOMBAY rose strongly on investor optimism ahead of the budget. This is due at the end of the month and it sparked a wave of buying yesterday. The 30-share index gained 58.30 or 1.7 per cent to 3,580.29. Reliance rose Rs4.25 to Rs277.75.

KARACHI continued to move higher, building on Sunday's strong gains and *lifting the main index* 10.23 to 1,731.30. The index has risen almost 5 per cent in two sessions with the upturn fuelled by talk of the newly elected government pursuing pro-business policies.

HONG KONG rallied gently to show signs of stabilising after last week's heavy sell-off. The Hang Seng index closed 31.36 higher at 13,144.62 having run up a loss of 547.24 over the previous five days.

Turnover was modest at HK$7.4bn, down from HK$10.5bn on Friday. HSBC rose HK$1.00 to HK$184.50 and Cheung Kong HK$0.75 to HK$72.50. Hongkong Telecom was easier, dipping 5 cents to HK$13.00.

SYDNEY closed higher in quiet trade. The All Ordinaries index added 10.6 to 2,493.2. Overall sluggishness was offset by interest in the *banks which pushed up to* new highs. NAB gained 40 cents to A$16.94, and Westpac 14 cents to A$7.791.

MARKETS IN PERSPECTIVE

	% change in local currency †				% change sterling †	% change in US $ †
	1 Week	4 Weeks	1 Year	Start of 1996	Start of 1996	Start of 1996
Austria	+1.43	+3.23	+14.12	+23.71	+0.55	+4.99
Belgium	+0.97	+4.76	+25.96	+30.07	+5.40	+10.06
Denmark	+1.99	+7.94	+37.20	+48.61	+22.74	+28.16
Finland	+1.88	+5.87	+54.97	+60.65	+33.65	+39.55
France	+1.22	+7.72	+35.24	+43.31	+17.97	+23.17
Germany	+3.34	+7.79	+31.29	+40.40	+14.14	+19.18
Ireland	+2.54	+6.34	+32.71	+34.81	+27.52	+33.15
Italy	-2.43	+1.83	+28.00	+30.61	+19.42	+24.68
Netherlands	+3.69	+7.96	+38.94	+48.06	+20.13	+25.43
Norway	+1.26	+4.91	+39.56	+43.48	+29.78	+35.50
Spain	+0.87	+0.78	+48.99	+54.07	+25.42	+30.95
Sweden	+1.55	+5.67	+44.93	+53.72	+35.52	+38.37
Switzerland	+2.25	+10.99	+34.50	+33.92	+0.92	+5.36
UK	+0.69	+2.75	+15.04	+16.98	+16.98	+22.14
EUROPE	+1.43	+5.36	+27.58	+32.06	+16.32	+21.45
Australia	+1.63	+2.19	+8.20	+12.14	+10.59	+15.47
Hong Kong	-4.70	-6.33	+9.13	+24.35	+18.83	+24.07
Japan	+4.15	+0.74	-13.14	-11.32	-29.47	-26.35
Malaysia	+1.46	+4.46	+21.78	+30.10	+27.37	+32.99
New Zealand	-0.47	-4.82	+9.30	+5.21	+7.07	+11.79
Singapore	+4.46	+3.57	+0.30	+10.29	+5.37	+10.02
Canada	+1.95	+1.32	+25.95	+35.16	+30.77	+36.53
USA	+2.33	+3.93	+23.13	+30.83	+25.30	+30.83
Mexico	+4.37	+2.08	+26.41	+36.28	+29.25	+34.95
South Africa	+2.45	+4.79	+3.95	+13.10	-10.59	-6.65
WORLD INDEX	+2.18	+3.49	+15.50	+21.05	+9.19	+14.00

† Based on February 14th 1997.

Gold trades lift S Africa

A rally towards the close allowed shares in Johannes*burg to end on a positive note* with the all-share up 21.8 at 7,042.5.

Both industrials and golds were firmer, and the session was marked by some big trades in the De Beers heavyweight. An uptick for golds reflected a better day *for the bullion price.*

The industrial index rose 10.2 to 8,315.5 and golds put on 23.6 to 1,418.7. De Beers jumped R2 to R148.50 and Anglo American added R1 to R278.

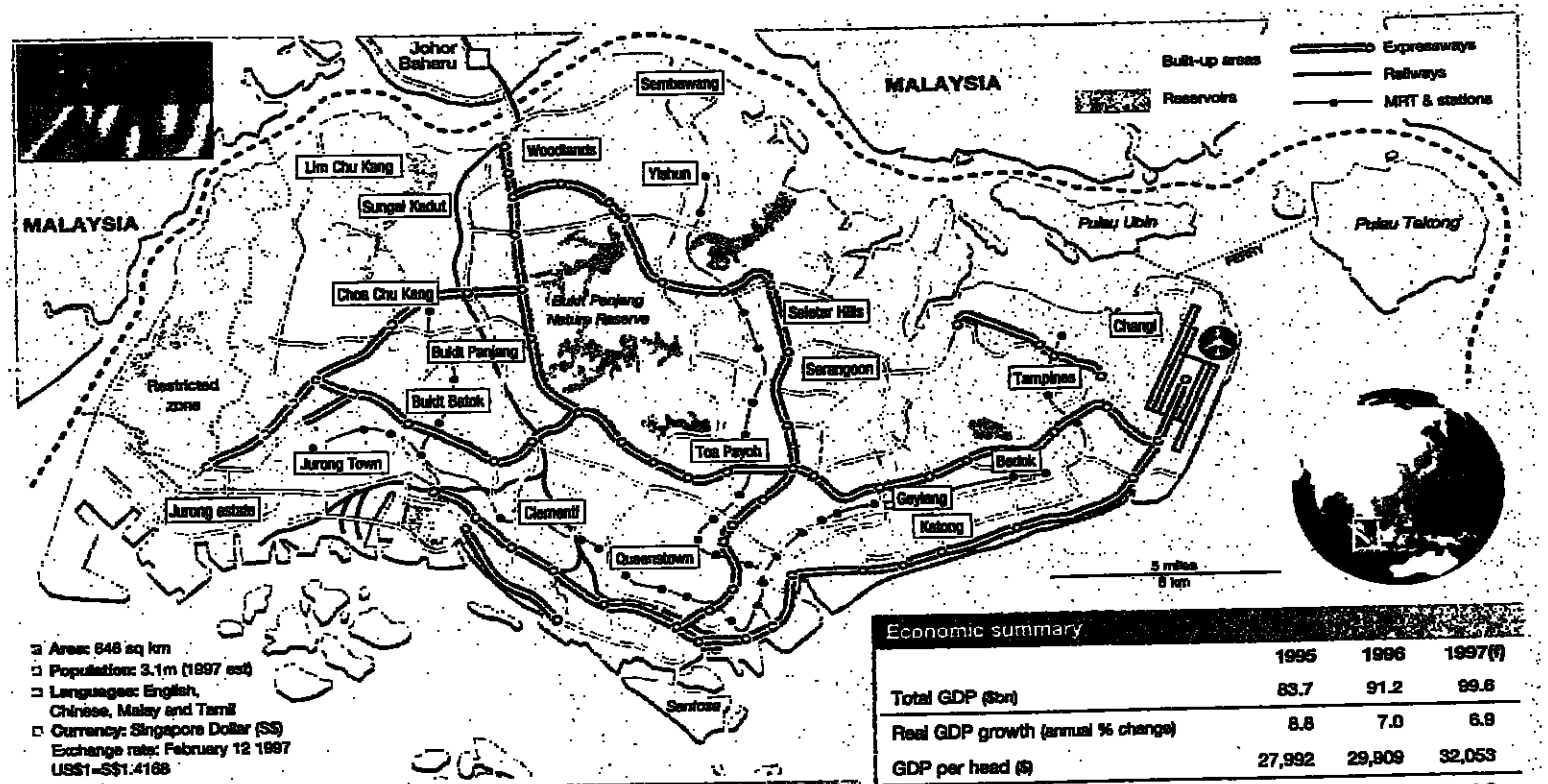
FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the indices.

NATIONAL AND REGIONAL MARKETS	FRIDAY FEBRUARY 14 1997								THURSDAY FEBRUARY 13 1997					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	52 week High	52 week Low	Year ago (approx)
Australia (76)	219.43	–0.8	200.69	172.27	192.36	190.54	–0.6	3.99	221.28	202.26	174.37	194.09	191.73	224.61	188.44	200.32
Austria (24)	183.24	0.2	167.59	143.86	160.63	160.56	0.2	1.82	182.85	167.12	144.08	160.97	160.30	195.04	174.70	184.42
Belgium (28)	230.17	0.2	210.51	180.70	201.77	197.43	0.1	3.26	229.69	209.94	180.99	201.46	197.23	233.47	203.64	210.34
Brazil (28)	234.65	–0.4	214.61	184.22	205.70	453.17	–0.4	1.34	235.66	215.39	185.70	206.69	454.85	235.66	147.48	165.69
Canada (114)	202.67	–0.3	185.36	159.11	177.67	198.14	–0.5	1.86	203.24	185.77	160.15	178.26	199.06	203.24	153.61	157.70
Denmark (32)	370.09	0.8	338.48	290.55	324.43	323.46	0.7	1.36	367.22	335.64	289.36	322.09	321.09	370.09	291.30	304.88
Finland (28)	261.05	–0.1	238.76	204.95	228.85	273.88	0.1	1.82	261.31	238.84	205.91	229.19	273.51	262.79	174.47	183.39
France (91)	220.98	0.0	202.11	173.49	193.72	197.24	–0.1	2.50	220.94	201.94	174.10	193.78	197.42	222.08	183.63	183.63
Germany (59)	195.08	0.5	178.42	153.16	171.02	171.02	0.4	1.45	194.13	177.44	152.97	170.27	170.27	195.08	164.47	170.54
Hong Kong (58)	481.01	–1.0	439.93	377.63	421.67	476.57	–1.0	3.25	486.00	444.21	382.96	426.27	483.50	514.49	402.53	441.70
Indonesia (27)	249.01	–0.9	227.74	195.49	218.29	363.79	–0.8	1.46	251.33	229.72	198.04	220.44	366.91	–	–	–
Ireland (16)	340.20	0.9	311.15	267.08	298.23	302.81	0.7	3.10	337.19	308.19	265.70	295.75	300.60	340.20	254.35	265.92
Italy (58)	91.89	–0.9	84.05	72.14	80.56	114.06	–0.8	1.84	92.72	84.75	73.06	81.32	114.96	96.32	70.61	75.56
Japan (480)	114.10	0.9	104.35	89.58	100.02	89.58	0.5	0.86	113.09	103.36	89.11	99.19	89.11	164.68	109.16	152.76
Malaysia (107)	645.16	–0.8	590.06	506.50	565.56	617.20	–0.8	1.01	650.25	594.33	512.39	570.33	622.40	650.25	512.47	517.58
Mexico (27)	1397.81	1.4	1278.44	1097.40	1225.37	11890.90	1.2	0.83	1379.06	1260.48	1086.69	1209.57	11751.01	1397.81	1046.55	1143.25
Netherland (19)	342.06	0.4	312.85	268.55	299.86	295.43	0.4	2.50	340.59	311.30	268.38	298.73	294.19	342.06	274.35	283.23
New Zealand (14)	89.05	–1.0	81.45	69.91	78.06	68.06	–0.9	4.10	89.94	82.21	70.87	78.89	68.67	95.60	75.94	79.17
Norway (41)	313.39	0.7	286.63	246.04	274.73	284.57	1.1	1.84	311.10	284.35	245.14	272.87	281.35	318.57	233.17	233.88
Philippines (22)	207.97	–0.3	190.21	163.27	182.31	273.04	–0.3	0.63	208.68	190.74	164.44	183.04	274.01	–	–	–
Singapore (43)	448.01	0.8	409.75	351.73	392.74	292.76	0.8	0.94	444.38	406.17	350.17	389.77	290.53	460.80	371.28	447.96
South Africa (44)	359.72	–0.3	329.00	282.41	315.34	347.24	–0.2	2.36	360.74	329.72	284.26	316.40	347.99	422.74	301.49	419.21
Spain (35)	216.32	0.9	197.85	169.83	189.64	233.93	0.8	2.68	214.38	195.95	168.93	188.03	232.07	228.16	161.86	167.47
Sweden (50)	431.84	0.4	394.96	339.03	378.56	470.68	–0.2	1.85	430.10	393.12	338.92	377.24	471.72	432.49	312.42	315.34
Switzerland (35)	248.65	–0.2	227.42	195.21	217.97	225.45	0.5	1.29	249.04	227.63	196.24	218.43	224.28	254.34	225.44	225.44
Thailand (45)	77.01	2.0	70.43	60.46	67.51	77.99	2.3	4.38	75.46	68.97	59.46	66.19	76.22	188.40	75.46	187.66
United Kingdom (210)	281.58	0.3	257.54	221.07	246.85	257.54	0.3	3.71	280.85	256.70	221.31	246.34	256.70	283.17	224.39	232.31
USA (654)	328.70	–0.4	300.63	258.06	288.15	328.70	–0.4	1.81	329.89	301.52	259.95	289.35	329.89	329.89	254.79	266.95
Americas (823)	301.00	–0.3	275.29	236.31	263.86	253.10	–0.3	1.80	302.03	276.06	238.00	264.91	253.99	302.03	233.08	243.64
Europe (724)	243.95	0.2	223.12	191.52	213.86	224.37	0.3	2.62	243.41	222.48	191.81	213.50	223.79	244.53	201.66	203.40
Nordic (151)	376.33	0.4	344.20	295.45	329.91	356.41	0.1	1.63	374.74	342.52	295.29	328.66	355.95	376.43	276.30	279.79
Pacific Basin (873)	135.55	0.5	123.97	106.42	118.83	105.16	0.2	1.38	134.94	123.33	106.33	118.35	104.95	177.01	131.50	166.05
Euro-Pacific (1597)	180.72	0.3	165.28	141.88	158.42	150.16	0.2	2.08	180.13	164.64	141.94	158.00	149.84	191.51	176.40	181.50
North America (768)	321.09	–0.4	293.67	252.08	281.47	320.06	–0.4	1.82	322.23	294.52	253.92	282.63	321.25	322.23	248.65	260.20
Europe Ex. UK (514)	218.40	0.2	199.75	171.46	191.46	201.81	0.2	2.00	217.97	199.23	171.76	191.18	201.36	219.12	181.80	183.22
Pacific Ex. Japan (393)	313.73	–0.7	286.94	246.30	275.03	273.13	–0.7	2.71	315.97	288.80	248.98	277.13	274.93	320.65	266.97	288.96
World Ex. US (1810)	184.74	0.3	168.96	145.03	161.95	156.38	0.2	2.06	184.21	168.37	145.16	161.57	156.06	193.47	177.71	183.29
World Ex. UK (2254)	225.85	–0.1	206.56	177.31	197.98	200.72	–0.1	1.75	225.97	206.54	178.06	198.20	200.85	225.97	199.58	206.84
World Ex. Japan (1984)	290.00	–0.2	265.24	227.68	254.23	279.27	–0.2	2.13	290.54	265.56	228.95	254.84	279.77	290.54	233.10	240.31
The World Index (2464)	230.62	0.0	210.93	181.06	202.17	205.93	–0.1	1.94	230.67	210.84	181.77	202.32	206.08	230.67	202.32	209.12

Latest prices were unavailable for this edition.

Singapore



- Area: 646 sq km
- Population: 3.1m (1997 est)
- Languages: English, Chinese, Malay and Tamil
- Currency: Singapore Dollar (S$) Exchange rate: February 12 1997 US$1=S$1.4168

Despite its enormous achievements, the city-state still suffers from deep-rooted insecurity. And fresh challenges are emerging as its society develops. James Kynge reports

Tough lap ahead on ambitious marathon

Singapore has been defying conventional wisdom for years. Its economy is managed in meticulous detail by the government, but it has suffered few, if any, of the ill-effects usually associated with central planning.

The country's income per head has climbed above $24,000 – more than double that of many nations in the developed world – but its industry shows few signs of hollowing out and Singapore remains the most advanced manufacturing nation in south-east Asia.

The island is only 646 sq km in size. It has a chronic shortage of land and labour but its economic growth rates are impressive; 7 per cent in 1996, 8.8 per cent in 1995 and 10 per cent in 1994. It continues to grow as a regional economic power and is the top foreign investor in neighbouring Malaysia.

Its population of 3.1m people means that domestic demand is relatively weak. Yet it boasts the world's second-busiest port; makes more than half the world's computer disc drives and – year in, year out – its airport is voted the best on earth.

On the world stage, it enjoys a level of influence beyond its size, mainly through joining groups such as the Association of South East Asian Nations (Asean) and the Asia-Pacific Economic Co-operation forum (Apec).

Last year it hosted the successful first ministerial meeting of the World Trade Organisation.

The achievements of the city-state are on display. The gleaming skyscrapers in the financial districts tower above well-preserved buildings from the British colonial era. So clean and free of crime is Singapore that when a few people throw litter from high-rise blocks, the news gets front-page coverage. Comfort Taxis cabs, operated by a company started by the government in the 1960s to alleviate chronic unemployment and poverty, are now guided by a satellite positioning system. Some of the trishaw riders have mobile phones.

But despite all this, the government is far from satisfied. A sense of insecurity is deep rooted and the island's leaders often seek to motivate the workforce by reminding them of the fragility of their wealth. Because people are Singapore's only natural resource, the pressure on people to do better, work harder and be smarter is intense.

"Singapore is now at a critical point in the marathon of material well-being. The next lap is tougher, even given the best weather, because many runners already feel stressed and exhausted," said Mr Goh Chok Tong, the prime minister, in a speech last year.

"We can become the first developed country in the tropics, if we do not let up," he said.

Observers say that although Singapore seems assured of being proclaimed a developed nation in the near future, the island faces challenges of considerable magnitude in many aspects of its society.

The economic success of the past sprang primarily from an obedient, diligent workforce. The education system was tailored to produce graduates with pride in their country (and a keen sense of its vulnerability) who would dedicate themselves to the task in hand. Any questioning of commands which originated ultimately from the cabinet was strongly discouraged. Singapore has barely had a strike since its independence in 1965.

But this model is now regarded as outdated and is being gradually transformed. A former emphasis on the cheap assembly of products for export has given way to a new focus on creativity, innovation and critical analysis. Rising wages and rentals have made all but high value-added activities untenable.

To promote more research and development, the government has earmarked S$4.5bn for grants.

The school curriculum is being remoulded to sharpen the ability of pupils not to memorise and regurgitate but to think for themselves.

The government has accorded this initiative a priority importance. In a limited cabinet reshuffle in January, Mr Goh, 55, appointed a 42-year-old rising star, Mr Teo Chee Hean, as education minister.

Mr Teo, a rear-admiral who was educated at Imperial College in London and Harvard University, is widely regarded as a possible future prime minister.

The motivation for the change in education is overwhelmingly economic. If Singapore is to realise its aim of becoming an "intelligent island" – a regional hub for finance, the media, product design and innovation – it must produce a generation of people to meet the challenge.

But the educational reforms raise a burning question: In fostering creativity and critical thought, will Singapore have to forfeit some of its society's obedience? So far, the government has shown no intention of slackening its control. In January, the ruling People's Action Party, in power since self-governance was given to Singapore in 1959, achieved its most emphatic general election victory in 16 years. It won 65 per cent of the popular vote (up from 61 per cent in 1991) and took 81 of

Continued on Page 2

IN THIS SURVEY

Editorial Production: Philip Sanders

Government and constitution

Head of state
The president, Ong Teng Cheong, was directly elected on August 28 1993, for a five-year period

Head of government
Prime minister Goh Chok Tong

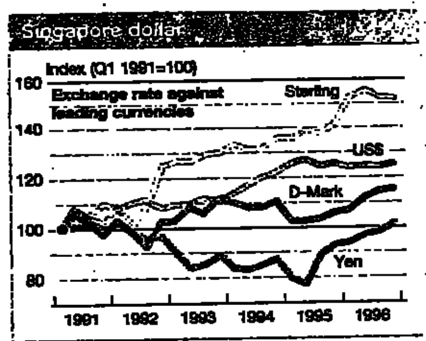
National government
The ruling People's Action Party (PAP) won 65 per cent of the valid vote in 1997 and now holds 81 seats in parliament. The last cabinet reshuffle was in January 1997.

National legislature
Unicameral parliament of 83 elected members; nine are elected from single-seat constituencies and the rest are elected from15 Group Representation Constituencies (GRCs). At least one member of any group standing for the GRCs must be from an ethnic minority, ie non-Chinese.
One oppositon candidate was awarded a "best loser" seat in parliament as a Non-Constituency MP, bringing the number of opposition MPs to four.

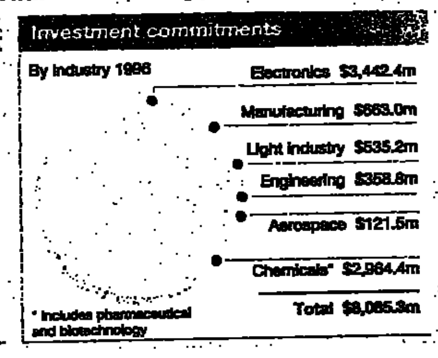
National elections
Next election due by mid-2002

Main political parties
Government;
People's Action Party (PAP)
Opposition;
Singapore Democratic Party (SDP)
Workers' Party (WP)
National Solidarity Party (NSP)
Singapore Justice Party (SJP)
Singapore Malay National Organisation (SMNO)
Singapore People's Party (SPP)

Singapore dollar



Investment commitments



* Includes pharmaceutical and biotechnology

Economic summary

	1995	1996	1997(f)
Total GDP ($bn)	83.7	91.2	99.6
Real GDP growth (annual % change)	8.8	7.0	6.9
GDP per head ($)	27,992	29,909	32,053
Inflation (annual % change in CPI)	1.7	1.4	1.6
Manufacturing production (annual % change)	10.3	5.0	6.0
Unemployment rate (% of workforce)	2.7	2.7	2.7
Money supply, M2 (annual % change)	8.5	16.8	10.4
Foreign exchange reserves ($bn)	68.7	75.8	83.8
Government expenditure (% of GDP)	12.6	12.7	12.9
Total external debt (% of GDP)	8.3	8.3	8.2
Current account balance ($bn)	15.6	14.4	14.5
Merchandise exports ($bn)	120.7	130.7	139.7
Merchandise imports ($bn)	117.5	129.2	138.9
Trade balance ($bn)	3.2	1.5	0.8

Main trading partners (Share of total trade to world, 1995)

(f) forecast

Bob Hutchison Sources: EIU; Monetary Authority of Singapore; Economics Development Board

FINANCE AND MARKETS • by Justin Marozzi

Lure of the Lion City

Singapore's role as a regional financial hub raises some crucial questions

When Commercial Union was deciding early last year where to locate its Asia-Pacific fund management headquarters, it took the somewhat unusual step of choosing Singapore. Unusual because although many financial institutions have located their south-east Asian headquarters there, few have seen it as a beachhead for the whole of the Asia-Pacific.

Commercial Union's move was, however, indicative of an important trend. Several banks, fund managers, insurance companies and other financial institutions have opened or beefed up offices in the Lion City in recent months. Bankers Trust opened a fund management operation and Rothschild's office is set to double or triple its managed funds business to S$40bn when it shifts its Asian funds previously managed in Europe and Australia to Singapore.

Evidence of the influx abounds. Rents for the type of quality apartments that expatriate bankers prefer have risen sharply. Harry's Bar, where Mr Nick Leeson used to imbibe (they named their "Bank Breaker" cocktail after him), is filling up at lunchtime with Caucasian currency dealers and the restaurants on "Boat Quay" – near the financial district – are doing a roaring trade despite the island's flagging tourist industry.

The new arrivals provide a clear endorsement of Singapore as a regional financial hub and are a source of some pride for the government. But they also raise some crucial questions that appear to highlight some of the island's inherent weaknesses.

The size of Singapore's domestic economy has meant that the local stock market is smaller, less liquid and growing at a slower rate than some of its neighbours. The government's desire to manage the economy, a strategy which multinational manufacturers applaud, has led to a reluctance to liberalise and diversify local financial markets, economists say.

In the opinion of many, the number of financial institutions in Singapore now has meant that there is sometimes not enough domestic business to go round.

"A lot more needs to happen to make Singapore a financial centre which has the dynamics to make businesses stay long-term, and that involves creating liberal economic regulation and sound prudential supervision so that the market can venture ahead into new businesses without constantly running into regulatory obstacles," said Mr Bernhard Eschweiler, head of economic research at J.P. Morgan.

Singapore's stock market provides a good example of some of the pressures in play. Authorities want the market to grow but the size of the domestic economy has limited the number of initial public offerings.

"Indonesia can grow very rapidly. It is such a large country. But for us it is not so easy to grow," said Mr Lim Choo Peng, president of the Stock Exchange of Singapore (SES)

Economists say that another problem is that many of the listed companies are foreign-owned and their shares are listed in US dollars. Generally speaking, local investors are less likely to invest in the shares of a foreign company with which they have little familiarity and which involves some exposure to currency risk.

To address this problem, the SES last year launched the Singapore Regional Index which groups local and foreign companies together. Foreign companies were also permitted to list themselves in Singapore dollars, provided they met certain criteria such as 35 per cent of their income or expenditure originating within Singapore.

The criteria are considered by many to be too stringent and so far only one foreign company has won approval to be listed in Singapore dollars. Financial authorities say that the criteria may be relaxed and, in another move to boost the regional index's popularity, an index futures contract is planned for some time over the next two years. But typically, the index futures are to be traded not in Singapore's currency but in US dollars.

The government has said it plans to internationalise the Singapore dollar but that the process will happen gradually. The reluctance

> **Pressures to liberalise are also coming from competition outside Singapore**

towards rapid liberalisation is deep-rooted, and for understandable reasons. The exchange rate is the central bank's only effective means of controlling inflation in a country where 70 per cent of goods consumed are imported. The currency volatility which could follow liberalisation would be a blow to many of the island's manufacturers, most of whom are dependent on exports. There are other perceived problems, too.

"Our problem in internationalising the dollar is that we don't want foreigners to borrow Singapore dollars to use offshore in projects which are totally unrelated to the Singapore economy," said Mr Richard Hu, finance minister. He said he expected the Singapore dollar to appreciate gradually this year.

Pressures to liberalise are also coming from competition outside Singapore. Malaysia in 1995 launched the Kuala Lumpur Options and Financial Futures Exchange and last year the Malaysian Monetary Exchange began trading the first interest-rate contracts denominated in Malaysian ringgit. By comparison, Singapore has no futures contracts based on domestic stocks and no interest rate futures with which to hedge local currency risk. In the field of initial public offerings, too, Singapore was eclipsed last year by its neighbours. Several local initial public offerings (IPOs) flopped ignominiously during the second half of the year (the market has since recovered well), while those in Malaysia brought large returns.

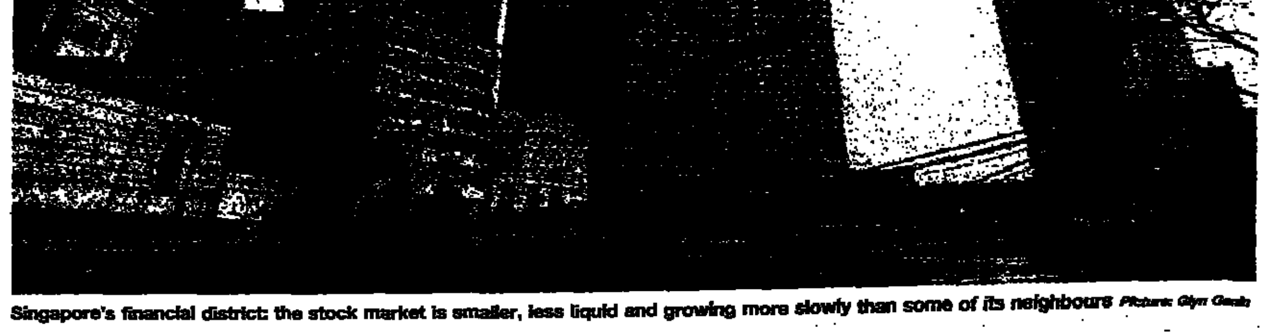
Overall, Singapore's stock market underperformed Hong Kong and all south-east Asian markets except Thailand. Turnover fell 10.7 per cent from 1995 to S$79bn.

The Singapore International Monetary Exchange, the first financial futures exchange in Asia, has been finding creative solutions to the country's limited size ever since it was established in 1984. None of the contracts it trades are based on the local economy and none are denominated in Singapore dollars.

In January it launched a futures and options contract based on Taiwan's main stock index. Many in Singapore's financial community hope to see more of such initiatives but the experience of the Taiwan contract shows that this may not be so easy.

Authorities in Taipei, which has its own ambitions to build a vibrant futures market, objected strongly to the launch. Turnover in the contract has so far been lacklustre, partly because Taipei's ban on its citizens trading futures contracts appears to be holding – despite predictions that Taiwanese would soon find ways to circumvent the prohibition.

Observers said that while Singapore was prepared to put up with objections from a country such as Taiwan, which has few diplomatic allies, the launching of futures contracts based on the currencies of south-east Asian nations – for which there could be considerable demand – would be much more difficult. As a member of the Association of South East Asian Nations, Singapore tries to keep relations within the grouping on a harmonious footing.



Singapore's financial district: the stock market is smaller, less liquid and growing more slowly than some of its neighbours *Picture: Glyn Genin*

Many of the financial institutions in Singapore have been drawn more by expectations of regional rather than local opportunities. Bankers say that the region offers lucrative possibilities in advising on mergers and acquisitions, lending for infrastructure projects, helping an increasing number of companies issue bonds overseas and several other operations. One star performer last year was treasury operations.

"We made about 90 per cent of our [currency trading] profits last year in dealing the [Indonesian] rupiah, the [Thai] baht and the [Malaysian] ringgit," said one currency dealer.

Political change in Thailand, unrest in Indonesia and relatively high interest rates in all three countries has helped to make dealing attractive. Such interest is expected to intensify as the launch of a single European currency draws nearer.

"A lot of European banks have taken a far greater interest in this part of the world because of the anticipation that with the introduction of the euro, the amount of intra-European currency trade will drop to zero and hence they want to position themselves in a growth area where there is a lot of volatility," said Mr Hu.

The handover of Hong Kong to China in June could also have positive spin-offs for Singapore. Some 15 Hong Kong-based companies are listed in the country and more are expected in the run-up to the handover and afterwards, officials say.

Some companies which do the bulk of their business in China like to spread their risk with a primary listing in Singapore. However, the share values of a Taiwanese company, Want Want Holdings, proved relatively resilient last year when Taipei's stock market plunged as China test-fired missiles across the Taiwan strait.

FOREIGN RELATIONS • by James Kynge

Domestic issues spill over

International developments often reflected closely the state's internal affairs

Singapore appears at times to serve as a text-book example of the old adage that foreign policy is merely an extension of domestic politics. On several occasions last year, sensibilities within Singapore found their reflection in the international arena.

A curious saga between Singapore and its closest neighbour, Malaysia, was perhaps the most delicate. It started with remarks made by Mr Lee Kuan Yew, the senior minister, over a rare lunch with journalists in June. Mr Lee raised the possibility of rejoining Malaysia, which threw Singapore out of their two-year union in 1965.

But, Mr Lee added, such a reunification would be possible only as long as Malaysia adopted a meritocratic system in which no race held a privileged position.

His comments cut deep in Malaysia, where it is virtually taboo to debate the privileges accorded to the ethnic Malay majority over the minority Chinese and Indians. But Kuala Lumpur's indignation did not find full expression until comments by Mr Goh Chok Tong, the prime minister, appeared to rub salt into the wound. Mr Goh explained that reunification with Malaysia was not on his agenda but warned: "If we fall behind and cannot make a living, we may have to ask to rejoin Malaysia".

Dr Mahathir Mohamad, the Malaysian prime minister, said that Malaysians were offended by the comments, which he called insincere and racist. He added that Singapore was using the spectre of reunification with Malaysia as a "bogeyman" to scare Singaporeans into working harder.

The tiff, which has now subsided, served to illustrate that although ties between Singapore and Malaysia are close, the relationship is also complicated by historical and cultural undercurrents, as well as by intensifying economic competition.

The disagreement was also important in a wider context because both countries are leading lights in the Association of South East Asian Nations (Asean), a grouping of seven south-east Asian countries which prides itself on solving disagreements by quiet diplomacy, eschewing public outbursts.

Another domestic issue which spilled over into foreign policy was the government's attacks on Mr Tang Liang Hong, a candidate for the opposition Workers' Party in the January general election.

Mr Goh and others called him a "Chinese chauvinist", a term which evokes resonances of the race riots in the 1950s and 1960s between Singapore's Chinese majority and the Malay and Indian minorities.

In his victory speech, Mr Goh made clear that there were wider issues at stake: he said that as China becomes more powerful over the next 20 years, there will be an increasing temptation among some ethnic Chinese citizens to stress their Chinese heritage.

Goh Chok Tong: reunification was not even on his agenda

Dr Mahathir Mohamad: said Malaysians were offended

This would run the risk of alienating Singapore's neighbours and closest allies in Asean, for many of whom China is a potential military threat, diplomats said. Singapore's government has made clear since the election that it is not moving into China's orbit.

"We are not a Chinese nation," said Mr S. Jayakumar, the foreign minister. "We should bear in mind that our destiny is with south-east Asia and Asean. That is a key point."

Mr Jayakumar added that there was little likelihood of Singapore's growing economic ties with China resulting in a political relationship with Beijing that was closer than those of its Asean allies. This was because many Asean countries are also investing in China at a rate equal to Singapore's, he said.

Asian diplomats said that China's growing political and military strength is also a factor behind Singapore's unambiguous support for a continuation of the US military presence in Asia.

"South-east Asia has never in its long history been more cohesive, confident and prepared to meet the future. This would not have been possible without America's leadership and efforts in the last half century," Mr Jayakumar said in a recent speech.

Singapore has the opportunity to engage both the US and China at the Asean Regional Forum, which meets annually after Asean meetings. The fact that Asean comprises seven economically vibrant nations speaking with a unified voice projects their influence considerably. This was apparent when senior Asean officials met Chinese counterparts near Shanghai in 1995 to discuss the disputed Spratley islands in the South China Sea.

Asean assertiveness was also on display at the World Trade Organisation's first ministerial meeting, which was efficiently hosted by Singapore in December last year. Asean made its opposition to the linkage of labour standards and trade clearly understood during the meeting, and was seen as partly responsible for reducing the mention of labour standards in the WTO's final declaration to vague generalities.

In mid-February, the Asia-Europe Meeting – a concept first mooted by Mr Goh Chok Tong, the prime minister – was scheduled to hold its first foreign ministers' meeting in Singapore. Few concrete results may emerge from the Asem conference but the fact that it will take place at all is seen by many as important.

The European Union will be able to confer with China, Japan, South Korea, as well as Asean nations, on a wide range of economic and foreign policy issues.

However, some difficulties lie ahead for Asean. The group's intention to admit Burma into its ranks, along with Cambodia and Laos, this July is sure to anger the EU and the US. From Asean's point of view too, there are some vexing dimensions to the inclusion of the three newcomers.

Senior officials say the group may grow unwieldy when it has 10 members, becoming slower to react and more fuzzy in its proclamations. But to outsiders, an "Asean 10" may make the group an even more attractive entity to engage. Japan recently made known its desire to hold regular summits with Asean – a proposal which Singapore supports but which has not yet been accepted by the group as a whole. Japan's motivation in seeking the closer co-operation with Asean was, at least in part, to seek a counterbalance to China's burgeoning power, diplomats said.

From Singapore's point of view, too, closer contacts with Japan would add an extra layer of comfort in the region at a time when debate over the US strategic presence in the region is unlikely to subside. But for all Singapore's support for the US presence in Asia and its warm ties with Washington, tiffs sometimes erupt.

One such disagreement – attributable again to domestic politics – burst forth during the election campaign in January. The State Department issued an implicit criticism of Mr Goh's strategy to link the promise of housing renovations to votes. In a memorably acid riposte, Mr Goh described his reaction when he heard of the State Department report.

"I can tell you I was furious, I was flabbergasted, floored," he said.

Tough lap on marathon

Continued from Page 1

the 83 seats in parliament.

But the campaign strategies it employed may have provoked a significant level of resentment, especially among the type of young professionals upon whom the country pins its hopes.

The ruling party made clear to the electorate that the government-sponsored renovation of their apartments – which for most families represents a key hope for greater wealth – would be deferred in those areas which voted for the opposition.

Mr Goh warned that they ran the risk of letting their houses turn into "slums".

A post-election deluge of 13 libel suits against Mr Tang Liang Hong, a candidate for the opposition Workers' Party, was also a focus of attention.

The writs were served by leading PAP members including Mr Goh, Mr Lee Kuan Yew, the founding father of Singapore and now "senior minister", Mr Lee Hsien Loong, the deputy prime minister and other members of the cabinet.

Regardless of how the election was fought, the victory was an important confirmation for Mr Goh. Observers said that the prime minister might start to emerge fully from the shadow of his illustrious predecessor.

Although Mr Lee Kuan Yew still exerts considerable influence in the cabinet, Mr Goh's bolstered standing may now lead to an infusion of his personal style into government.

His rise to power in 1990 was said then to presage a softer, more consultative approach. In the event, little changed.

There are times, too, when economic imperatives appear to clash with values which the government holds dear. "Asian Values" – personal decorum, respect for the family and the state – are being challenged by some of the material available on the Internet.

The Singapore Broadcasting Authority, the media regulatory body, acknowledges that the Internet cannot be controlled.

Equipment installed to block access to certain pornographic and other "undesirable" sites should only be seen as a "symbolic" gesture, said one SBA official. But the Internet's existence means that people are becoming increasingly exposed to the type of hard-hitting political comment (as well as to pornography) which is unthinkable in the mild mannered local media.

Once again defying expectation, Singapore is fast becoming a hub for western media companies – despite its notorious sensitivity to foreign media reporting.

Some of the new arrivals have relocated from Hong Kong, partly because of the high costs in the British colony and partly because of uncertainty over how China will treat the media after it takes over the territory.

A few banks have also moved some operations from Hong Kong to Singapore over the past year, and some wealthy individuals have taken money out of the colony and deposited it in the city state, bankers said.

Observers say that although Singapore may gain somewhat from those that quit Hong Kong, the island is far removed from China geographically and psychologically.

It cannot hope to assume Hong Kong's role as a gateway and conduit for Asia's rising power.

THE ECONOMY • by James Kynge

Slowdown ruffled planners

There are fears of an over-reliance on an industry known for its volatility

Singapore's vaunted economic planners are not fond of the unexpected. At the first sign of a disruption to their meticulously conceived scenarios, they spring into action. Studies are commissioned, committees formed and mountains of statistics are collected.

Last year, two important studies on the island's competitiveness were launched – a sure sign that something was amiss. One of them – on manufacturing competitiveness – was to look into whether land rents, wages and other costs were too high. The other, due to be published at the end of February, was charged with making recommendations on the island's trading patterns.

The cause of such activity was a rare event. The government had to revise downward its forecast for gross domestic product growth twice during the year, from an original prediction of between 7.5 and 8.5 per cent to a final forecast of 6 per cent. In the event, the economy grew at a healthy 7 per cent. That compares with 8.8 per cent in 1995 and 10 per cent in 1994.

The main reason for the slowdown was the global slump in demand for many electronics products. Several Asian Tiger economies were affected by this downturn, but none were punished as severly as Singapore.

About 70 per cent of the country's non-oil exports are in electronics goods. Consumer electronics output contracted by 20 per cent last year compared to the year before, and semiconductors – the emerging mainstay of the local industry – managed only a 3 per cent expansion.

Global demand patterns are beyond the influence of Singaporean planners, but last year's experience has aroused fears of an over-reliance on an industry known for its volatility.

Economists worry that the economy may soon be a virtual hostage to the monthly ticks in the US "book-to-bill" ratio, a key measure of semiconductor demand. Such uncertain fortunes are anathema to Singapore's tradition of comforting predictability and could undermine the local stock market's reputation as a relatively safe haven in an uncertain region.

The government, however, sees no viable alternative to electronics. Mr Philip Yeo, chairman of the government's Economic Development Board (EDB), said that any measure of retreat from a sector with such bright long-term prospects was unthinkable.

"Either you have the guts to ride the world economy as a surf rider, or you sit down and meditate. For Singapore we just ride the wave. If the wave goes up, we go up; if the wave goes down, so be it," Mr Yeo said.

But this is not to suggest that Singapore has suddenly espoused laissez-faire economics. Far from it. As the two competitiveness studies show, the government is trying hard to limit cost increases.

At the moment, an electrical engineering technician earns S$2,101 a month; industrial land rent is S$19 a sq metre; and the cheapest cars on the market go for about S$90,000. Such costs make Singapore significantly more expensive than other south-east Asian countries such as Malaysia, Thailand, Indonesia and the Philippines.

The country is determined, however, to maintain its manufacturing base at not less than its current level of 25 per cent of GDP. Officials fear that if industry "hollows out", people will forfeit familiarity with new technologies and start to lag behind.

Mr Ho Meng Kit, the EDB's managing director, outlined two main areas which Singapore is now emphasising as its competitive advantages:

- Speed: the country hopes to be quicker than regional competitors to design and start manufacturing new products. It hopes then to make full use of its efficient airport and port to dispatch them to the world's shops before competitors.
- Capability: With intensive programmes to train local talent and relaxed rules on the hiring of foreigners, Singapore hopes to become a leading centre for the innovation and conceptualisation of new products.

Supporting both these initiatives are various new funds worth a total of S$4.5bn which are ready to be disbursed as grants to both local and foreign companies to spur research and development over the next five years.

Some companies, notably Packard Bell of the US, chose to invest in neighbouring Malaysia last year after considering Singapore for many months. Nevertheless, statistics show that industry is not hollowing out. It attracted a record S$8.1bn in manufacturing investment commitments in 1996, most of them from foreign multinational companies. And it predicted that this year it should be able to draw S$8.5bn and about S$10bn annually by the year 2000. These figures compare with total commitments in 1995 of S$6.8bn.

Value added per worker in the electronics sector rose to a projected S$133,000 in 1996 from S$119,000 a year earlier. This contrasted, however, with the picture in the wider economy where productivity fell 2.8 per cent in the third quarter of the year, compared with an increase in the whole of 1995 of 3.6 per cent.

But although last year's problems were brought on by a cyclical sag in global demand, structural factors also acted to depress some parts of the economy.

Shipyards had another bad year as competition from the Middle East and China undercut them for cost. The tourism and retail sectors recorded a lacklustre performance as higher prices tarnished the country's reputation as a "shoppers' paradise".

The strong Singapore dollar has done much to make life difficult for the retail and tourism businesses, although the currency remained stable for most of last year at around S$1.41 to the US dollar.

The strong Singapore dollar has done much to make life difficult for the retail and tourism businesses *Picture: Sarah Murray*

Mr Richard Hu, finance minister, said that a gradual appreciation in the Singapore dollar would be "desirable". Although some parts of the economy may suffer because of a stronger local dollar, "you can't manage a currency to suit particular sectors", said Mr Hu. He added that an appreciating dollar would help keep inflation, estimated at 1.4 per cent last year, under control.

In May last year, the government took steps to curb speculation in the property market, with the result that residential prices fell over the year, by as much as 2[illegible] per cent at the luxury end of the market.

Mr Hu said there were no plans to lift the measures implemented last year because the declines in values have so far been "modest". The falling property values have been welcomed by many, especially young Singaporeans who have been worried that they would never be able to afford their own apartment.

The high prices of apartments and cars are the main reasons behind the prodigious savings habits of Singaporeans. Economists estimate that savings last year amounted to some 45 per cent of GDP. A large surplus in the current account of the balance of payments – which was S$21.3bn in 1995 – was another factor applying upward pressure on the exchange rate.

Recycling the surplus is one of the government's main preoccupations and lies behind its drive to expand into the region. Not only are private companies being encouraged to branch out into the markets of south-east Asia and beyond, the government is also blazing a trail of its own. It has set up industrial parks in China, Vietnam, India and Indonesia, each one seeking to be an oasis of Singaporean efficiency in an otherwise difficult environment.

ELECTRONICS • by Elizabeth Robinson

Focus on restructuring

Although the slowdown was predicted, its rate caught some by surprise

Singapore has plugged itself into electronics in a big way. Electronics output accounts for some more than 50 per cent of the island's manufacturing and the industry employs 35 per cent of workers in the country. Most of the big names have a presence there, either as a regional headquarters to coordinate sales and marketing, or as a manufacturing operation.

With so much of the economy invested in one area, last year's slowdown in electronics probably caused a few jitters, although Singapore is not letting it show. Growth in the country's manufacturing sector slowed from 18 per cent to 9 per cent thanks to the global downturn in consumer electronics and a slump in D-Ram prices, according to Singapore's Economic Development Board. Analysts say the problem was compounded by inventory write-offs but they expect 1997 to be less volatile.

Mr Yeo Cheow Tong, minister for trade and industry until January's cabinet reshuffle, said that although the slowdown in the sector was predicted, the speed caught some by surprise.

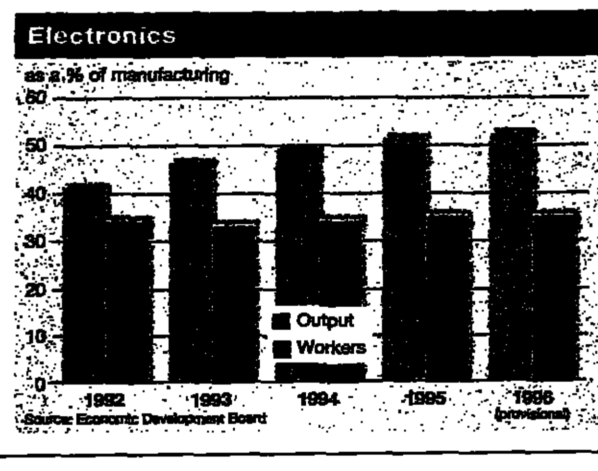
"The downturn confirmed for us the need to speed up the restructuring of the industry," he says. This restructuring is aimed at moving Singapore up the technological and value-added ladder and to the forefront of research and development.

The bias towards higher value-added products such as data storage and disc drives cushioned Singapore against the worst effects of the slowdown. A 31 per cent increase last year in the output of data storage and office automation products helped lift the industry's total output from the island to S$63bn, compared with $S58bn in 1995.

Mr Liow Voon Kheong, head of electronics at the EDB, confirmed the need for Singapore to diversify, especially given the slowdown in consumer electronics. But he said Singapore was "not going to give up" on that sector. The diversification is focused on retaining high value-added products and being the home to the development stage of the industry.

Mr Lai Yeow Hin, head of electronic systems at the EDB, says foreign companies should take advantage of Singapore's highly skilled workforce by designing new products there and exploiting the island's facilities for the early stages of production. This would allow the high profit margins that newly-launched goods often attain to offset Singapore's high production costs. As such products age, and their profit margins narrow, production should be moved offshore to parts of Asia where labour and rental costs are cheaper.

Electronics



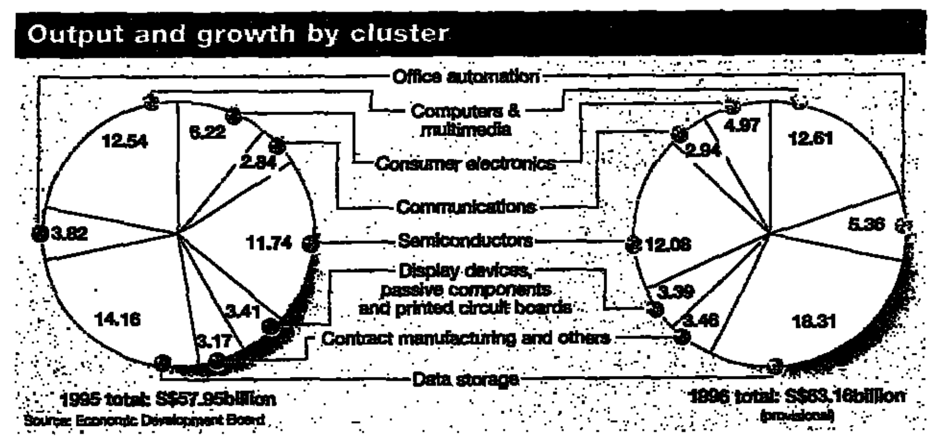
Source: Economic Development Board

Mr Ho Meng Kit, the EDB's managing director, says that as product life cycles shorten, whichever company can bring its products to market first will gain the advantage.

He cited Seagate, which was assembling its 21 gigabyte disc drive in Singapore, as being able to command high prices because of the lead manufacturing in Singapore gave it. He conceded, however, that when the time came to drop the product's price, Singapore might not be so competitive.

"We are not just about providing (manufacturers) with a stable environment," he said. "We must be able to provide the speed to respond to the industry."

Output and growth by cluster



Source: Economic Development Board

The development of these products fits with Singapore's desire for more research and development. Last year, the EDB granted S$26m to 17 electronics innovation projects being conducted by companies including Western Digital, the US disc drive maker, and SCI Manufacturing, the US contract manufacturer.

Such initiatives are aimed at Singapore being well positioned for what analysts expect will be strong growth in south-east Asian electronics. They say Asia-Pacific markets will increase in importance in the longer term as companies shift their production there to take advantage of the skilled labour and growing market for the end-products.

Hewlett-Packard, the US electronics groups, abides by this school of thought. It is one of the biggest private-sector companies in Singapore, employing 8,500 people and accounting for 1 per cent of the island's GDP. Its operations in Singapore include the manufacture of wafers, personal computers, inkjet printers as well as regional hub services.

Hewlett-Packard aims to lift revenues from south-east Asia to $3.5bn by the year 2001, compared with $823m last year. This increase, it says, will largely come about by focusing on high value-added products such as personal computers, as well as growth in areas such as Indonesia. The company says PCs sales are the fastest growing part of its business in the region.

Mr Cheah Kean Hunt, Hewlett-Packard's managing director for the region, confirmed that the Singapore government was actively trying to move up the value chain and had identified some industrial clusters such as high value-added products and low labour utilisation that fitted Singapore's economic and demographic conditions.

He said that his company was also driven by these economics to search out lower costs of manufacturing. The company was making inkjet printers in China, using research and planning conducted in Singapore. "Singapore is regarded as a strategic location for Hewlett-Packard overall," he said. This will cheer the EDB. Last year several companies moved off the island, especially to Malaysia, or retrenched their operations as labour costs or price falls hit margins.

In June, Syquest moved its manufacturing operations to existing facilities in Malaysia with the loss of about 1,000 jobs, citing high labour costs and the desire to be more competitive. The move was mirrored by Maxtor, the US disc drive maker, which shed 500 jobs.

Mr Lai, acknowledged that "companies are moving to Malaysia basically to take advantage of cost" but said Singapore hoped to combat this by competing on a "time-base" and "capability base" – offering a one-stop manufacturing environment and a highly skilled workforce. He forecast that Singapore's electronics industry would grow 10-15 per cent this year, a figure described as "moderate" by one analyst.

Certainly, companies are continuing to underline their confidence in the island's industry: last year some S$3.29bn was committed to fixed assets, almost equally from Japan, the US and Singapore.

Analysts also point to a brighter outlook, saying D-ram prices are unlikely to fall at the same rate as last year and that the industry has been forced to move towards a more stable supply and demand situation.

TELECOMMUNICATIONS • by Catherine Ong

Competition takes off

Some of the world's leading operators are believed to be interested

"No price wars please, we are Singaporean."

This is not quite how the Telecommunication Authority of Singapore (TAS) describes its policy on competition. But in essence it is the kind of scenario the regulator would like to see when the first challenge to the monopoly of Singapore Telecommunications (SingTel) is mounted on April 1.

The TAS wants sustainable competition rather than predatory pricing and new entrants to the republic's fast-growing telecoms industry will find themselves with less room to manoeuvre than was the case when liberalisation took place in other markets such as in Britain.

In less than two months' time, MobileOne (Asia), a mobile phone and paging operator, and two paging companies, ST Messaging and Hutchison Intrapage, will roll out their networks. They will pave the way for fully-fledged competition in the fixed-line domestic and international services in the year 2000 when SingTel's monopoly on basic telecoms expires.

Mr Neil Montefiore, chief executive of MobileOne, rules out aggressive UK-style promotions when his company launches its network.

He says: "Singapore is different from the rest of the world in that there will not be a distortion of the handset market. The regulators have said that the handset market will be left alone; you are not allowed to cross-subsidise, so you wouldn't see the very rapid reduction in handset prices that was the characteristic of Australia, UK and US markets.

"What we will see is a gradual erosion of handset prices as world volumes build up.

"The easiest thing in the world to get rapid growth, to bring in people, is to subsidise handset prices. But that brings in people who can't sustain the cost of the cellular service. They get the first bill and they say 'wow' and they drop out."

MobileOne plans instead to give SingTel a run for its money on the network service front. Here, its ability to underprice the dominant carrier is also limited. Singapore's mobile phone charges are already among the lowest in the world. SingTel's rates, for example, are half those of Hong Kong's market leader, Smartcom. Its classic package is S$45 a month with calls during peak hours at 20 cents a minute and 10 cents a minute at offpeak rates, compared to Smartcom's basic package at HK$400 (S$75) and HK$1.20 (S$0.22) a minute.

MobileOne is owned by two of Singapore's largest corporations, Keppel Corporation and Singapore Press Holdings, Cable and Wireless and Hongkong Telecom.

> MobileOne aims to capture 30-50 per cent of the market share in three years

Mr Montefoire, an Englishman with more than 20 years' experience in the telecoms business, joined the company last year from Hongkong Telecom CSL where he was director of mobile services. Before that, he had worked for Cable & Wireless Systems (Hong Kong), Paknet (UK), and Chevalier Telepoint (Hong Kong).

He believes that MobileOne can win new customers and attract existing ones from SingTel with better packaging of its tariffs to suit individual lifestyles, a higher quality of service, and with frills such as messaging, voice mail and use of data services.

A basic form of number portability which mechanically forwards calls to a new number will allow MobileOne subscribers to retain their existing SingTel numbers.

Mr Montefiore admits that MobileOne will not have any significant technological edge over SingTel MobileLink. "It's hard for anyone to say there's a technology story these days; there isn't really. We have the advantage of a clean sheet of paper; we haven't got any legacy system. We have a wealth of experience in our shareholders in operating communications.

"Cable and Wireless operates 30 mobile systems around the world so we can get the data from all the systems. With a clean sheet of paper, we have the chance to buy the very latest technology to suit the environment. For example, we can place our base stations where we want to place them, and not co-locate with perhaps an earlier technology."

MobileOne will offer customers the GSM (Global System for Mobile Telephony) system when it launches and Code Division Multiple Access later in the year. Restricted competition notwithstanding, the company aims to capture 30-50 per cent of the market share in three years' time. By then, it hopes that lower mobile phone charges and an increase in hype and awareness as a result of competition, will raise the current penetration rate of 12 per cent of the population to 30 per cent.

There are currently 300,000 mobile subscribers in Singapore and SingTel signs up more than 7,000 new users each month. Last year it raked in $645m in revenue from its mobile operations.

SingTel is not taking the impending competition lying down. The government-controlled company began preparing for the competition five years ago when it changed its legal status and corporate culture from that of a statutory board to a corporate entity.

A spokesman says: "To stay ahead of the competition, we have focused on three key areas: coverage, customer service and competitive pricing."

It has put in more base stations as well as using "microcellular, hierarchical cell structures" to expand its mobile phone network coverage. It plans to invest another S$100m over the next two years in its digital mobile networks, and has a five-year plan to invest S$131m to boost its paging infrastructure.

To spruce up customer service, it employs technology for tracking customers and has also put in place a 24-hour customer care hotline.

"Our pricing will be competitive and this includes having pricing packages that will suit the usage patterns and lifestyles of our customers," the spokesman added.

Although its monopoly for basic telecoms, including international calls, will only expire in the year 2000, SingTel has been compelled by the TAS to lower its international direct dial (IDD) calls tariffs through a price control mechanism which regularly checks the international competitiveness of its charges.

The average charge for an IDD call has dropped 36 per cent in the past five years, from S$2.67 a minute to S$1.70 a minute. But this has been more than compensated by an increase in volume. SingTel ran up S$1.8bn in revenue from international telephone calls in the financial year 1996-96, representing a 32 per cent rise from S$1.4bn in the financial year 1992-93. International calls traditionally account for half of its earnings. The group's net profit stood at S$1.5bn last year, up 48 per cent from three years ago.

Another round of IDD rate cuts, effective from January 1, will cost the company S$120m a year. To mitigate the impact of falling rates, the spokesman said SingTel has been stepping up its marketing efforts, and also examining ways to lower the accounting rates – that is the charges it pays to other countries for calls going into those countries from Singapore.

Interconnection will provide a new source of revenue when the competitors come on board. Mr Montefoire said the interconnection rates were "reasonable." The TAS, he added, had learnt from the experience of countries such as the UK where it was shown that the incumbent carrier could make life difficult for competitors.

Singapore's mobile phone charges are already among the lowest in the world *Picture: Sarah Murray*

Interconnection arrangements will be negotiated with SingTel soon for basic telecoms services which will be freed up seven years before the company's original 2007 monopoly deadline. SingTel has agreed to S$1.5bn compensation from the government which said it decided to terminate its exclusive rights in domestic and international services earlier than required because of rapidly advancing technologies and because it wants to make Singapore a regional telecoms hub.

The early expiry was tabled in Geneva as part of the republic's offer to help move forward the World Trade Organisation's telecoms negotiations. The government will award up to two new licences in domestic and international services in mid-1998 and plans to call pre-qualification tenders on March 1.

Some of the world's leading telephone companies, including British Telecom, C&W, Sprint, MCI, Deutsche Telekom, Japan's NT&T and French Telecom, are believed to be talking to potential local partners including the MobileOne shareholders, Keppel Corporation and Singapore Press Holdings. Sembawang Corporation, and Singapore Technologies which is partnering Singapore Power, to bid for the licences.

Industry observers do not expect to see more than half a dozen bids. As one telecoms consultant says: "The local partners are confined to the three or four GLCs (Government-Linked Companies). Companies without the political clout and financial strength of the GLCs don't stand a chance in hell. Foreign companies want to get in but they are not stupid so they all want to go to bed with Singapore Technologies, Sembawang or Singapore Press Holdings."

Foreign carriers which are part of a global alliance are said to be particularly attractive to local bidders because they would want partners which can give them immediate access to the global public switched network. At stake is a lucrative S$3bn market. The winners will also be able to gain a foothold in one of Asia's most important telecom hubs.

THE RETAIL SECTOR • by Justin Marozzi

'Paradise' is in dire straits

Structural problems must be addressed before the general gloom begins to lift

Behind the gleaming facades of department stores on Orchard Road, the Oxford Street of Singapore, there are a lot of empty shops and anxious retailers struggling to avert a fourth successive year of losses.

Hampered by a Singaporean dollar which has appreciated by 13 per cent against a trade-weighted basket since 1992, the retail sector of the former "shoppers' paradise," heavily dependent on spending by overseas visitors, continues to find itself in dire straits.

Orchard Road itself relies on tourists who account for up to 80 per cent of its sales. And, although average tourist expenditure has started to pick up, at $526 per head for 1995-1996 it is still a long way below the $761 recorded in 1990. From a high of S$358 per person per day in 1989, spending of the average Japanese visitor fell to S$229 in 1995.

Last year witnessed the departure of Lane Crawford, one of the island state's better-known department stores, which had posted heavy losses during the first six months of the year. Galeries Lafayette, the French retailer, and Kmart added to the list of those departing.

The strong domestic currency has two negative spinoffs for the retail sector.

● First, the attractiveness of Singapore as a shopping destination for the country's neighbours inevitably diminishes. Tourist arrivals increased only 2.2 per cent to 7.3m in 1996, missing the government's target of 3-5 per cent. The all-important Japanese market recorded its first year-on-year decline, prompted in part by an above-average hardening of the Singaporean dollar against the yen. The number of Taiwanese visitors, another important spending group, also slipped 6 per cent.

● Second, Singaporeans themselves are increasingly likely to make trips to Kuala Lumpur or Jakarta, newly-emerging challengers to Singapore's traditional pre-eminence as a shopping destination, where they can find the same products at lower prices. And, as previously closed neighbouring economies gradually liberalise and relax import tariffs, Singapore further loses its competitive edge.

"This problem isn't going to go away," says Mr PK Basu, director of regional macroeconomics at Union Bank of Switzerland in Singapore. "It can be temporarily relieved by the reduction of retailing capacity as I believe it now has been, but problems will always re-emerge because structurally there will always be the real appreciation of the Singaporean dollar to contend with – and consequently the sector will be losing competitiveness to neighbours like Kuala Lumpur."

One bright spot on the horizon, says Mr Basu, is the flattening out of non-car retail prices which have been in steady decline for the past 18 months.

Other structural problems, however, must be addressed before the general gloom begins to lift. Despite last year's departures from the retail scene, the recurring problem of overcapacity may continue to haunt the sector.

The average rental value for prime upper storey units fell 11 per cent last year. Between now and 1999 another 4.2m sq ft of new retail space will come on stream, adding to the existing 19.8m sq ft which Edmund Tie & Company, the property group, estimates at 10 per cent oversupply.

"There are not enough retailers and new concepts from existing retailers to absorb that space," says Ms Wang Look Tsui, executive director for retail at Edmund Tie & Company. "Fresh ideas are not coming from foreign retailers because they are not attracted by a small market of 3m people. Unless they have plans to enter Singapore to tackle regional markets, it's just not worth it for them."

After meetings with the Singapore Retailers' Association, the government has said it will put a brake on the amount of land it releases for retail development. But observers believe retailers themselves need to sharpen up their act and improve the poor levels of service by attracting higher calibre sales staff and enhancing the image of the work.

Steep labour costs combined with an undersupply of qualified sales personnel remains a structural malaise from which retailers have yet to recover. Retailers, so the argument goes, should begin tracking and predicting new shopping trends, focus on making shopping fun and offer varied concepts such as "lifestyle" products which cater to the busy and stressed executive.

Ms Tsui points to the success of niche stores and brands as one area which retailers have been slow to exploit but which have produced healthy returns. The arrival of Starbucks, Spinelli Coffee and Coffee Bean & Tea Leaf has brought "coffee culture" to Singapore and brands such as Guess? and Armani cater to the status-driven youth market.

One of the government's latest initiatives to attract visitors is Tourism 21, a blueprint for the development of the industry which includes the "Mall of Singapore" project, designed to increase the number of tourists to 10m a year and annual tourism receipts from S$11.6bn in 1995 to S$16bn by 2000.

Beginning in Japan, the tourist promotion board will launch a series of "Singapore Fever" campaigns targeting overseas spenders. But there are limits to what it can do to assist the sector.

"I have no magic formula to help the industry turn around," Mr Yeo Cheow Tong, the former trade and industry minister told retailers last year. "Individual retailers will have to examine their in dividual circumstances and business plans, while keeping in mind the larger forces at play."

Fresh challenges such as on-line shopping through the internet will continue to test Singaporean retailers. Some electronics products sell in the US for half the price.

Billed by one analyst as "the year of the shake-up", 1996 left a lot of problems unresolved. The sector is still in need of extensive restructuring and rationalisation before it can return to the pink.

REGIONALISATION • by Elizabeth Robinson

Long-term investments

The Economic Development Board co-ordinates industrial parks

The outline of Singapore may be barely discernable on a map of Asia, but the country has over the past few years burst out of the physical confines of its island to clone itself in other parts of Asia and expand its economic zone.

This "regionalisation" drive has in particular seen Singapore attempt to create industrial parks in selected pockets of Asia that use Singapore's expertise in management and production at local rates of pay and property prices.

This allows Singapore-based companies to extend the depth and scope of their domestic operations while providing them and foreign tenants with the infrastructure, facilities and management they have come to expect in Singapore. It also provides Singapore with access to a wider market and a cheaper workforce. In this way, Singapore companies can concentrate their high-margin and headquarters operations in the island, but move manufacturing to cheaper, but equally well-run, areas.

The scheme is co-ordinated by Singapore's Economic Development Board which facilitates and focuses this overseas investment. The project is an extension of what companies were already doing when they set up operations in areas of China, India or Vietnam, according to Mr Chua Taik Him, director of the EDB's international business development division.

"Business moved in before government. The EDB thought: 'Why should we not go in as well in a more organised manner?'" He added that in those parks where the EDB was now involved there was a brand name and the expectations that went with it.

Last month saw the topping-out ceremony of the EDB's latest such development – an information technology park in Bangalore, India. Other parks are already in operation in Suzhou in China and in Vietnam. Indonesia has the Karimun Marine Industries Complex, the Bintan Beach International Resort and the Bintan Industrial Estate.

The flagship projects are long-term investments to reposition Singapore's companies in the heart of other Asian markets and it may be some years before the Singapore consortiums involved in the various parks see a return on their substantial overseas investments.

The Suzhou park, which is expected to be 70 sq km in size when fully developed, is "not making the kind of money bankers would be happy about", according to the EDB, but 78 projects have already been established, and a total of $2.1bn has been invested. Although Suzhou is at present a "huge drain on resources", the EDB is confident it will see healthy returns when the whole park is operational in five to 10 years. "If China can sustain growth, the going is good for that industrial park," said Mr Ho Meng Kit, EDB managing director.

Although the long-term goal for these parks to be profitable in their own right, may be some way off, they are yielding other gains. They are helping to attract business to Singapore itself from foreign manufacturers as companies feel that they can set up manufacturing operations in Singapore with the option of moving with low risk into one of these parks should their Singapore operations become too expensive.

The Bangalore park, which should be officially opened this summer, has so far signed up 13 companies including Hitachi Asia, Hitachi Microsystems and Tata Consulting Services. Mr Lim Neo Chian, chairman of the park's executive committee, tries to ensure a smooth entry for tenants. He deals with many of the local rules and regulations "so that when our tenants come in, they will not have to face more of these difficulties".

Mr Lim says that Bangalore should make a profit by 1999 when the first stage of its development will be mostly full. He says that an occupancy rate of over 60 per cent would allow it to break even.

There is always the risk that these sites, with their low labour costs and efficient structures, will provide not enhancement but competition to Singapore. Mr Lim says: "In the longer term, it is not just economic benefits but political benefits too. We are really thinking about long-term political and economic linkages."

The parks helped make Singapore the fifth-biggest foreign investor in China last year and the 12th-biggest in India. A recent development in Vietnam, opened last year, has already received commitments of $75m from 13 international tenants.

These projects form the rump of Singapore's direct investment into Asia, which last year totalled $8bn. More than a quarter of the investment was directed into Indonesia where two flagship projects – Karimun Marine Industries Complex and the Bintan Beach International Resort – became operational last year, joining the Bintan Industrial Estate which has already established itself as an electronics site with tenants such as Sumitomo Metal Mining.

This regionalisation programme is still in its early days, but the EBD has no current plans for more flagship parks, having reached a ceiling of what it can manage. Besides, it says, Singaporean companies occupy industrial parks all over Asia where the EDB is not involved.

Although Singapore's regionalisation is concentrated on Asia, its inspiration comes from much further afield. "We compare ourselves with Norway or Sweden," says Mr Ho Meng Kit. "They have many world-class companies. Why can't we follow them?"

EDUCATION • by James Kynge

A gentle revolution

De Bono: burgeoning popularity

Singapore's schoolchildren have for years outdone others in international tests *Picture: David Hayes*

By the year 2000, it is hoped that all schools will have classes on how to think

Mr Edward de Bono, the master of lateral thinking, has become something of a messiah in Singapore.

His books are selling rapidly in the city-state's book shops; children are taking extra-curricular classes to learn his methods; and when education officials speak his name they do so with a respectful solemnity.

The reason for his burgeoning popularity is a gentle revolution in Singapore's educational philosophy. The island's schoolchildren have for years outdone others in international maths and science tests, and their average of 4.6 hours of homework a day puts most pupils in the west to shame.

But, of late, a realisation has dawned that these students are expending too much energy in the wrong direction. They memorise and regurgitate too much, but are not given enough chance to create and think critically, teachers say.

This is where Mr de Bono comes in; his assertion that creativity can be taught and his prescriptions on how to do so have been taken to heart.

The motivation for the change is economic. Mr Goh Chok Tong, the prime minister, voiced his concerns at a Teachers Day rally last year.

"Employers felt that our school-leavers and graduates are hard working and co-operate well as team members. But most required too much hand-holding and had difficulty working independently. They were also not strong on initiative and in persuading others to new ideas," Mr Goh said.

The pace of technological change and the deluge of information available to modern businessmen has made it important that children do not just amass facts and figures in school but learn how to prioritise information, generate new ideas and apply them quickly.

"The knowledge that [children] pick up in school could be obsolete in a few years," Mr Goh said.

The reforms have been gradual so far but the pace is picking up. Pupils in five secondary schools last year were taught "thinking skills" lessons once a week. This year 20 more schools will enter the programme. By the year 2000, it is hoped that all schools will have classes on how to think, says Mr Tan Yap Kwang, director of the planning division in the ministry of education.

The lessons are based on Mr de Bono's books and involve teachers asking "provocative questions" such as "Think of a sausage and design an umbrella" or "Design cars with their engines on the roof", teachers said. But they acknowledged that such tutorials would have a limited impact unless elements of creative thinking were introduced into examinations.

Progress on this front has been limited. The National University of Singapore (NUS) has experimented with some "open" examinations in which students are allowed to consult reference books during the exam. In schools, though, meaningful ways of testing creativity and critical thought are still being devised.

Mr Bernard Tan, dean of the faculty of science at NUS, said that several initiatives have been taken in universities with the ultimate aim of producing graduates who are able to compete in the workplace with the world's best. Flexibility has been introduced into degree courses, whereby a student can now take five years to complete a three-year programme.

More significant, perhaps, is the Talent Development Programme – an attempt to address a perennial criticism that while Singaporean students on average were more knowledgeable than their counterparts in the west, the island produces far fewer high flyers. Two dozen gifted students picked to pioneer the programme this year will be exposed to a more inter-disciplinary approach than other students. Thus students of physics will be given tutorials in areas of biology, chemistry and other subjects that might bear some relevence to physics.

There will be other perks too. Nobel prize winners visiting Singapore will be asked to talk to these students, Mr Bernard Tan said .

It is a measure of the synchronisation of Singapore's planning machine that the initiatives being pursued in schools and universities find their mirror image in industry. Last year, the government launched two programmes to promote research and development in industry.

One of these is a S$4bn fund which was allocated late last year to spur more R&D over the next five years. Under the programme, which is administered by the National Science and Technology Board, the government will meet up to 50 per cent of the costs of an R&D project, and the grants will not necessarily be tied to results. The scheme is open to both local and foreign companies and companies such as Sony and Hewlett Packard have already benefited from it.

Another initiative is the S$500m Innovation Development Scheme which stumps up money for new product development. Launched last year, it has already committed S$131m in grants and is almost certain to be topped up before its five-year life expires. An unlimited number of foreign researchers will also be allowed into the country.

But all this presents a real challenge to the government. It is widely recognised that Singapore's education system has been the foundation of the island's extraordinary economic success, as well as its obedient, conformist society. Tinkering with the system, then, risks causing the economic engines to wheeze and sputter. It could also groom a new, more adversarial generation less willing to accept the ruling party's directives.

And what would happen if children begin en masse to ape the icons of rock music creativity or, even worse, the punks? The establishment has other role models in mind.

"Bill Gates is not a punk," says Mr Tan Yap Kwang.

POLITICS • by James Kynge

Doubts seem to have evaporated

January's poll victory may help Mr Goh emerge from the shadow of Mr Lee

Mr Lee Kuan Yew, Singapore's founding father, is not one to mince his words. Before he handed over the job of prime minister to Mr Goh Chok Tong in 1990, he worried aloud about the character of his successor.

He suggested that Mr Goh should consider seeing a psychiatrist to overcome a somewhat wooden style when speaking in public. He was also concerned that Mr Goh tried too hard to accommodate too many people.

But any lingering doubts in Mr Lee's mind appeared to evaporate in January when Mr Goh fought the toughest of campaigns to lead the ruling party to a resounding election victory. The prime minister publicly staked his reputation on winning a clear endorsement from the people.

"Having gone through such a searing heat when everything was at stake, you either come out genuine porcelain or you're cracked. They [the party leaders] came out porcelain," said Mr Lee. "So I'm very pleased. I'm very satisfied that he [Mr Goh] has it in him," added Mr Lee, 73, who still wields considerable influence as senior minister in the cabinet.

The ruling People's Action Party (PAP) put in its best electoral performance for 16 years, seizing 81 out of 83 seats in parliament and winning 65 per cent of the popular vote. The triumph erased memories of Mr Goh's first election in 1991, in which the party gained only 61 per cent of the vote – its lowest ever – and lost four seats to the opposition.

Observers say that the win will do much to enhance Mr Goh's stature in the ruling elite and may help him emerge at last from the shadow of Mr Lee, who is 73. The precise balance of power between Mr Lee and Mr Goh is difficult to ascertain, but with Mr Lee's health somewhat in doubt, the younger generation of ministers are looking increasingly towards Mr Goh, 55, for advancement.

The win should also help put to rest any residual notions that Mr Goh was a mere "seat warmer" who will vacate his position when Brigadier-General Lee Hsien Loong, the deputy prime minister and son of the elder Mr Lee, is ready to accede. Indeed, some observers now believe it is no longer a certainty that Brig-Gen Lee – who is said to have recovered fully from the lymphatic cancer he had in 1992 – will ever hold the top job. Since the election, Mr Goh has announced that he will serve out his full term until mid-2002. He did not say whether he plans to run again.

It was, however, the manner rather than the margin of the election victory which proved more revealing about Singaporean politics. A few months before the polls, electoral boundaries were redrawn and the number of single-seat constituencies was reduced to make way for more multi-seat constituencies.

The effect of such changes was to disadvantage the opposition parties, which have a few well-known individuals but lack the depth to field an impressive team for the multi-seat races.

When the nine-day campaigning period got under way, Mr Goh – who was returned unopposed in his own constituency – threw himself into the fray. He made it clear that not only those constituencies but also those residential precincts which did not vote for the PAP would have the renovation of their government-built flats deferred. It was a potent ploy; some 86 per cent of Singaporeans live in such flats and renovations to them can add about S$10,000 to the value of a property.

"In 20 or 30 years' time, the whole of Singapore will be bustling away, and your estate, through your own choice, will be left behind. They become slums," Mr Goh warned voters.

The tactic got results; few householders can be expected to vote against their interests. But many young Singaporeans, as well as senior commentators in the usually pro-government newspapers, criticised the strategy for limiting their freedom to choose. Others, meanwhile, made the point that the government's approach appeared to encourage them to put their own material interests above those of the state – reversing one of the core "Asian values" upon which Singaporean society is founded.

Since the election, several PAP leaders have announced that they intend to sue two losing candidates from the opposition Workers' Party: Mr Tang Liang Hong and Mr Joshua Jeyaratnam, with numerous legal suits. Mr Tang, who fled abroad after the polls, was facing 13 libel actions and Mr Jeyaratnam was facing six. Mr Tang has been told to set aside S$11.2m to cover liabilities which may arise from the legal cases.

It is unlikely that the election will presage any change in the way Singapore runs its government. A limited cabinet reshuffle in January appeared to lay greater stress on education with the appointment of Mr Teo Chee Hean, a 42-year-old rising star, as the new minister. But the reforms in schools and universities are not about to be mirrored in the political arena.

Mr Goh said the election result was a repudiation of "western-style" liberal democratic values.

"Do you think we could have done even half of what was achieved in the last 30 years if we had a multi-party system and a revolving-door government?" Mr Goh asked during the campaign.

"Do you think we could have done just as well if we had a government which was constantly being held in check by 10 to 20 opposition members in the past 30 years?"

Few Singaporeans would quarrel with the government's record over the past 30 years but many do argue that the authoritarianism which served the nation well in the past is not necessarily a guarantee of future success.

PORT OF SINGAPORE • by Elizabeth Robinson

Gateway to the region

Competition is increasing but new technology helps Singapore to stay ahead

There are not many people hanging around the world's second-busiest port. That is because the Port of Singapore is increasingly using information technology and automation to position itself as the gateway to south-east Asia.

Lorries entering the port barely hesitate at the entrance as they are scanned and instructed by computer where to leave or collect their load. Similarly, approaching ships, of which there are about 300 a day, are allocated their berths well in advance and are required to give details of their cargo so that the cranes can immediately start the load turnaround. Last year this operation was cut from an average of 14 hours to 11 hours 12 minutes.

The IT drive is only one of many steps planned by the Port of Singapore Authority. There are also plans to expand the port's expertise to other geographical areas, by forming joint ventures to create ports in its own image in south-east Asia and beyond; and a move towards a stock exchange listing, perhaps as early as next year.

The main reason for the expansion is that the port sees rapid growth in shipping in south-east Asia and it wants to harness this. Mr Khoo Teng Chye, the PSA's chief executive officer, estimates that in terms of volumes, the Asia-Pacific shipping market is currently around 60m teus – 20ft equivalent units, the industry's container measurement – and this could double by the year 2000. "With such good growth in the region, it is essential all ports in the region upgrade. We can't handle all this growth ourselves," he says.

But the port aims to handle a great deal of the growth, beating regional competition from ports such as Malaysia's Port Klang, by upgrading efficiency and expanding to other locations. The "regionalisation" of the port has already begun. Last year saw the signing of its first overseas joint venture. The operation in Dalian, northern China, is "part of our international expansion strategy", says Mr Khoo.

Under the deal, the port of Dalian is 49 per cent owned by a Singapore consortium of which the PSA is the biggest shareholder. Since the signing in July last year, growth has increased 17 per cent, according to Mr Khoo, and "operations have improved tremendously".

"We are hoping to develop Dalian into a major hub in northern China, and possibly in northern Asia," he says.

The total Singapore investment in the project was S$600m. Now the PSA is looking to repeat the venture at other ports in China, India, the Philippines, Indonesia and even Malaysia.

Meanwhile, until such ventures are established, the PSA has been promoting itself throughout the region by providing consultancy and training. It has lent some equipment to ports in the Philippines while it claims that "many regional port managers come to Singapore for port training". The PSA hopes that the goodwill this establishes will lead to business partnerships.

Inevitably the upgrading of neighbouring ports will increase competition in the region, but Singapore starts from a long way ahead. It is the world's second-busiest port, after Hong Kong, in terms of volumes, but the busiest in terms of shipping. It serves 400 lines, connecting to 600 ports and rightly claims to be south-east Asia's transhipment hub, whereby mother ships deliver cargo to smaller feeder ships that serve the region.

Last year's growth was 9 per cent, compared with 5.6 per cent at Hong Kong, and Singapore expects to do even better this year. Its naturally deep 15m channel means it can comfortably handle the world's biggest ship, the 81,000-ton Regina Maersk which can carry 6,000 teus. Not every port can accommodate such a vessel, either because of depth, or because its cranes cannot stretch across the width of 17 containers on board the ship.

Mr Khoo believes the industry is moving towards bigger and bigger ships: "The feeder ships of today are the mother ships of yesterday," he says.

Competition is increasing, especially from Malaysia which this year will further galvanise authorities to promote and market more aggressively its ports. Singapore shrugs this off. "We are still the most efficient hub and we will try to stay that way," says Mr Khoo.

This efficiency has come about through technology such as the "Portnet" system, used to service shipping lines and do away with paperwork for billing, and the "FastConnect" information system that accelerates the procedures for loading or unloading containers. Last year, the speed for this was increased from an average of 79 teus an hour to 84, which the port says is the industry's highest average.

Singapore can therefore market itself on these initiatives, claiming that they provide efficiency and enhance value.

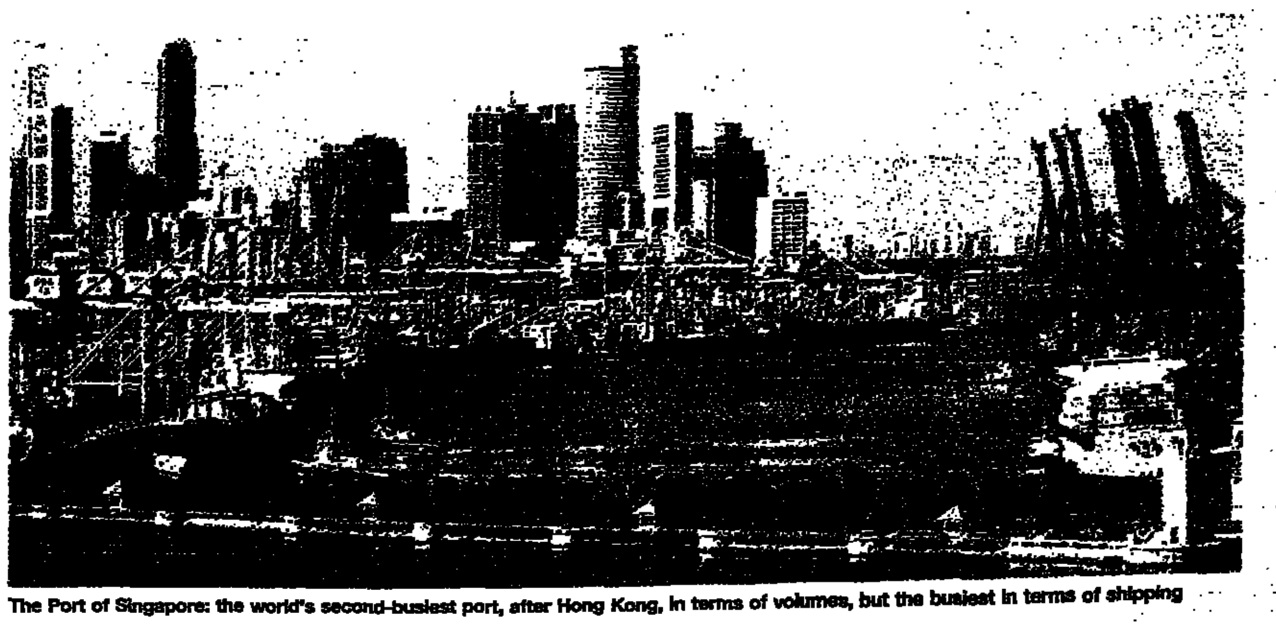
It claims that its tariffs are still half those of Hong Kong and but higher than ports in the rest of the region. For example, it costs S$70 less per container to dock at West Klang Port in Malaysia. Singapore is therefore in talks with some shipping lines on ways of adding value and is reaching 10-year tariff agreements. In return, the port promises to share its productivity gains with the customer so that even quicker throughput of cargo will make the rates more attractive. "The more they bring, the lower the cost," it says.

The port is also increasing its capacity with the construction of a new container terminal at neighbouring Pasir Panjang, to begin operations in 1998. When completed, Pasir Panjang will add 26 berths with a capacity of more than 18m teus to Singapore's port.

The physical and technological advances at Singapore's port are being matched by a more fundamental change. The port is being turned into a company, in preparation for a stock exchange listing. The transformation into a company unshackles the port from the public service system and the port believes that "as a corporation we will be less bound by the state as to what we can or cannot do".

A privatised port will be one of the biggest names on the Singapore stock exchange: last year its turnover was more than S$2bn and it is sitting on a net surplus of more than S$900m. Moreover, some 25 per cent of companies on Singapore's stock exchange are already maritime industry or transport-related stocks. There may be spin-offs however, and Mr Khoo does not rule out splitting the international operations, the marine services and the container activities.

One of the advantages of the corporatisation, which is due to be completed this year, says Mr Khoo, is that the PSA will have more flexibility to remunerate staff and link performance to pay. A small consideration, perhaps, because increased automation has already seen the port transformed into a ghostly city inhabited only by containers, with even the lorry and crane traffic directed by computer.



The Port of Singapore: the world's second-busiest port, after Hong Kong, in terms of volumes, but the busiest in terms of shipping

PROFILE Keppel Corporation

From ship-building to mobile phones

Keppel Corporation is probably Singapore's best advert for successful diversification.

In 1968 it started life as a shipyard. Today, having survived the challenges of the early 1980s, it is a broadly-based group with assets of $16bn and 10 listed subsidiaries, encompassing operations from banking, property and stockbroking to mobile phones, engineering and insurance.

In 1982, two years after its listing on the Singapore stock exchange, a storm hit Keppel Shipyard. With a depressed oil market, shipowners were in no hurry to repair their vessels; yards were competing desperately for reduced business; high labour costs were crippling competitiveness; and the industry reported a decline in earnings.

In 1984, after divesting non-core operations and writing down the book value of non-performing vessels – then the largest write-off in the island state's history – Mr Sim Kee Boon, Keppel's chairman, announced a loss of $173.9m. The following year, for the first time since independence, the Singaporean economy experienced a downturn of 1.8 per cent.

"We were really in dire straits because all sectors of the business collapsed," says Mr Sim. "The debt level was very high so we had to take very draconian measures." These included cutting the shipyard labour force from 3,800 to 2,300. Group strategy switched to rationalisation at home and "prudent" diversification in Singapore and overseas.

A decade later, Keppel Corporation is a very different animal. Pre-tax profits reached a record $445m in 1995, of which ship repair and shipbuilding, suffering another difficult year, accounted for only 12 per cent.

Banking and financial services and property, now the two pillars of the group, together made up 70 per cent of the group's profits. The banking division, from its humble beginnings as an in-house financing facility for yard contractors in 1978, has grown to become the group's largest contributor with pre-tax profits of $190m. Straits Steamship Land, the property group, with domestic operations bolstered by work in China, Vietnam, Indonesia, and the Philippines, lifted profits over 50 per cent to a record $138m. The most visible evidence of the continued diversification is at the group's shipyard headquarters at Telok Blangah where SSL is planning a prime waterfront residential and commercial development to replace the exiting shipyard business.

Mr Sim refutes the suggestion that shipbuilding and ship repair are sunset industries in Singapore, pointing to the port's favourable location, the wide spread of supporting industries and the track record of expertise, combined with a new emphasis on the higher end of the market with the advent of more sophisticated technologies.

At the same time, in response to the challenging domestic climate, the regionalisation strategy has taken Keppel shipyards to the Philippines, India, United Arab Emirates, Vietnam and Australia.

Keppel's latest foray into a new market is MobileOne, the paging and mobile phone operator, which puts it into direct competition with the government-controlled Singapore Telecommunications. MobileOne, whose foreign partners are Cable and Wireless and Hong Kong Telecom, is due to start operations in April.

"It will be profitable within three years if we're lucky," says Mr Sim. "If not, we're prepared to stay the course because this is something where you can't hit and run."

With margins in the fiercely competitive mobile phone market fast declining, the main motivation for entering the sector was to position Keppel for a much bigger potential prize: a fixed line license which Singapore will award to one, and perhaps two, of SingTel's competitors by the year 2000. Keppel, which also has found foreign partners for this bid too, stands a good chance of winning one of the licenses, said one industry analyst.

The way ahead for Keppel is likely to distance it still further from its original industrial core. The government's policy of maintaining a manufacturing base at not less than 25 per cent of gross domestic product is only viable if it is sufficiently flexible to remain competitive, says Mr Sim.

Justin Marozzi

margin and headquarters operations in the island, but move manufacturing to cheaper, but equally well-run, areas.

The scheme is co-ordinated by Singapore's Economic Development Board which facilitates and focuses this overseas investment. The project is an extension of what companies were already doing when they set expected to be 70 sq km in size when fully developed, is "not making the kind of money bankers would be happy about", according to the EDB, but 78 projects have already been established, and a total of $2.1bn has been invested. Although Suzhou is at present a "huge drain on resources", the EDB is confident it will see healthy returns when the 1999 when the first stage of its development will be mostly full. He says that an occupancy rate of over 60 per cent would allow it to break even.

There is always the risk that these sites, with their low labour costs and efficient structures, will provide not enhancement but competition to Singapore. Mr Lim says: "In the longer term, it industrial parks all over Asia where the EDB is not involved.

Although Singapore's regionalisation is concentrated on Asia, its inspiration comes from much further afield. "We compare ourselves with Norway or Sweden," says Mr Ho Meng Kit. "They have many world-class companies. Why can't we follow them?"